COMMUNITY HOSPITAL CORPORATION and
COMMUNITY HOSPITAL CONSULTING, INC

Response to Request for Proposal for the Lease, Sale or Conveyance of Yadkin Valley Community Hospital

March 19, 2015

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Introduction Letter

CHC
Community Hospital Corporation

March 19, 2015

Board of Commissioners of Yadkin County, North Carolina
Human Resources Building
217 E. Willow Street
Yadkinville, NC 27055

Re: Request for Proposal for the Lease, Sale or Conveyance of Yadkin Valley Community Hospital

To the Board of Commissioners:

It is with great pleasure that Community Hospital Corporation ("CHC") and Community Hospital Consulting, Inc., ("CHC Consulting") the management and consulting arm of CHC, submit to you our response to the Request for Proposal (the "RFP") as referenced above. We appreciate the opportunity to do so and look forward to potential next steps in the RFP process.

Our experience in owning and managing Critical Access Hospitals as well as rural community hospitals throughout the country uniquely qualifies CHC to support Yadkin Valley Community Hospital ("YVCH") in meeting the short- and long-term challenges you can expect to face in the coming years. Currently, we own/lease four (4) acute care hospitals and provide management and year-round support services to another 10 hospitals across the country. **Included among these relationships are five (5) Critical Access Hospitals and five (5) governmental hospitals.**

In response to the requirements as noted in the RFP the following information is provided to the Board of Commissioners relative to CHC and CHC Consulting and our services:

- Executive Summary
- Corporate Overview
- Ownership/Lease Structure Option
- Management Services Options
- Appendices of Support Information

With any healthcare organization that is contemplating a leasing or management relationship, we highly recommend a "face to face" meeting in order to fully discuss its vision and needs for the organization. Our approach is always to customize the services needed by the organization that are most appropriate. Determining the best "fit" is always in the best interest for CHC, CHC Consulting and our clients.

We again appreciate the opportunity to participate in the RFP process and look forward to next steps with the Board of Commissioners in developing a structure and format that works best for the hospital and the communities you serve.

Sincerely,

David E. Domingue, FACHE
Senior Vice President, Business Development
Community Hospital Corporation

Enclosures: As outlined in the table of contents

Executive Summary

At CHC our founding mission is to provide support and services such that your mission can be maintained and enhanced. Our underlying goal is to work with all key stakeholders to develop measurable initiatives that will help YVCH continually improve its quality outcomes, patient satisfaction and financial performance. By developing a system of not-for-profit, community based hospitals, we have created a process whereby we "say what we do" and "do what we say".

We believe that CHC would be a great fit for YVCH as well as bring the greatest value to the organization and community. Because we are by nature a not-for-profit organization that owns/leases facilities through our support structure and provides management services and expertise through our consulting entity, CHC Consulting, we bring to our relationship a very unique perspective. We are focused on community control, autonomy and the reinvestment and development of the local healthcare sector. With leadership development, accountability, communication and positive relationships, we have developed a unique and successful model, whether it's a full management relationship or Board and Executive Advisory Services or becoming part of the CHC family of hospitals through our ownership/leasing structure. Our goal is to continue to make YVCH the place to turn to for healthcare in the community.

Our commitment from the beginning of our relationship will be to provide the right resources necessary to make YVCH successful and to reinvest the margins generated by YVCH back into the local health care sector.

Our processes and services will help the organization's leadership and Board be better educated on the state of the healthcare industry, best practice performance and measurements, and will provide a level of resources and support that will assist the organization in realizing its vision and potential.

It is important to stress that we serve at the pleasure of the Board. As a not-for-profit organization, CHC truly respects and understands the significant contribution and role that the Board plays in the success of the hospital.

Similarly, we also believe that the development of physician relationships and medical staff leadership is absolutely vital to the success of the hospital. It is our belief and practice that the medical staff should be engaged to assist the organization in developing a clear vision for the hospital and a clear direction for quality care and service line growth.

As such, we will work with the leadership team to develop both formal and informal communication platforms that are focused on building relationships with the Board, medical staff and administration.

As part of our relationship with YVCH, whether it is through our ownership/leaseing structure or through a management relationship as defined in either option in our response, a CHC representative will attend every regularly scheduled board meeting throughout the fiscal year. Similarly, CHC will act as an advisor to the Board and the Board Chairman throughout our relationship and/or engagement. We will facilitate an annual strategic retreat with the Board, key medical staff and hospital management leadership to assist with development and review of strategic plans and vision for the organization.

Should the Board choose to explore more fully CHC's §509(a)(3) ownership/leasing model, the executive leadership team of CHC will work with the YVCH Board and organizational leadership to fully educate the Board on the impact of the structure, the role of the CHC system in the relationship and negotiate the terms of the relationship.

Should the Board choose either of the Management Services options (Full Management or Support Services) in our response, CHC Consulting will work with the Board and the organization's leadership team to develop the best and most appropriate level of support services such that our relationship is truly customized and brings the greatest value to both organizations.

We appreciate the opportunity to be part of the RFP process for YVCH and look forward to potential next steps.

Corporate Overview

Requested Information (Parent Company and Subsidiaries)

Community Hospital Corporation owns, manages and consults with hospitals through three distinct organizations – CHC Hospitals, CHC Consulting and CHC ContinueCARE, which share a common purpose to guide, support and enhance the mission of community hospitals and healthcare providers. Based in Plano, Texas, CHC provides the resources and experience community hospitals need to improve quality outcomes, patient satisfaction and financial performance.

Community Hospital Corporation (CHC Hospitals)
7800 N. Dallas Parkway, Suite 200
Plano, Texas 75024
(972) 943-6400
Contact: David Domingue, Senior Vice President of Business Development
State and Year of Organization: Texas, 1996

Community Hospital Consulting
7800 N. Dallas Parkway, Suite 200
Plano, Texas 75024
(972) 943-6400
Contact: David Domingue, Senior Vice President of Business Development
State and Year of Organization: Texas, 2005

CHC ContinueCARE
7800 N. Dallas Parkway, Suite 200
Plano, Texas 75024
(972) 943-6400
Contact: Leslie Boney, Senior Vice President of Post-Acute Services
State and Year of Organization: Texas, 2004

In addition to the three divisions mentioned above, Appendix I – Audited Financials, contains information on all CHC wholly owned or wholly controlled hospital subsidiaries. In addition, should CHC be selected as the preferred partner and enter into negotiations with Yadkin County, we will be happy to provide additional information regarding our company and all subsidiaries as part of the mutual due diligence process.

Organizational Background

Community Hospital Corporation ("CHC") was established in 1996, to preserve the control of community-based hospitals. CHC, through Community Hospital Consulting, Inc., ("CHC Consulting") provides hospital management and consulting services that help our clients improve quality outcomes, patient satisfaction and financial performance. All CHC services are tailored to the unique needs of a community based organization to help our clients maintain community control and viability.

Today CHC provides assistance and support to community hospitals and organizations throughout the country through three distinct organizations – CHC Hospitals, CHC Consulting and CHC Continue Care. CHC serves clients in many capacities including:

- Leasing, Ownership and Joint Venture Models
- Hospital Management
- Board and management advisory
- Education
- Consulting

Our Mission

To guide, support and enhance the mission of community hospitals and healthcare providers.

The Four Key Benefits of Choosing CHC

The long-term success of community-based hospitals is our primary objective.

- At CHC and CHC Consulting, we understand that community-based hospitals are valuable community assets. In fact, we only work with community-based hospitals. Our main focus always is to preserve and protect community control of the organization. We do this by providing the resources and expertise needed to improve financial performance, quality care and patient, employee and physician satisfaction.

CHC is flexible – we design our services around each organization's needs.

- We believe that each organization's situation and needs are unique. Our process is always tailored to the organization's specific challenges. We work with each organization to define a custom package of comprehensive services to meet the organization's needs. We work closely with the board, senior management and physicians to develop and communicate goals and strategies for driving organizational success.

We have successfully helped organizations improve performance.

- CHC offers a diverse array of experienced executives with a broad base of knowledge and experience. Our team brings along a deep understanding of the not-for-profit and

for-profit healthcare market today. We have successfully demonstrated our ability to turn around distressed hospitals as well as help successful organizations better improve their strategic potential. This track record and team approach to our partnerships allows CHC to deliver a comprehensive predictable results focused engagement.

CHC has developed an array of proven and respected processes and tools, which provides access to a variety of quality services

- Depending on an organization's needs, CHC can provide access to a menu of services including national group purchasing organizations (GPOs), all of which can assist an organization with increased purchasing power and access to best practice models, ideas and support.

Key Personnel

The following list of key personnel from CHC and CHC Consulting comprise our Executive Leadership Team and will be utilized throughout the relationship with YVCH. Background qualifications for each individual can be found on our website at www.communityhospitalcorp.com.

Michael D. Williams, FACHE	President and CEO
Wilson J. Weber III, FACHE	EVP and COO
Cindy B. Matthews	EVP Planning & Strategic Development
David L. Butler	SVP and General Counsel
M. Tod Beasley	SVP of Hospital Financial Operations
Leslie Boney	SVP of Post-Acute Services
Laurie Breedlove, FACHE, SPHR	SVP of Human Resources
Brian Doerr	SVP of Information Technology
David Domingue, FACHE	SVP of Business Development
James Hill	SVP and Corporate Controller
Craig Sims, FACHE	SVP of Hospital Operations
Amy Boykin	SVP of Clinical Services
Tony Ybarra	SVP of Supply Chain

CHC Facilities and Organizations

Facilities and organizations currently owned or leased by CHC or managed through CHC Consulting:

CHC Owned/Leased Hospitals (Short Term Acute Care)

- Baptist Hospitals of Southeast Texas
  - Baptist Beaumont Hospital, Beaumont, TX
  - Baptist Orange Hospital, Orange, TX
- St. Mark's Medical Center, LaGrange, TX*
- Yoakum Community Hospital, Yoakum, TX *(Critical Access / Governmental Hospital)**

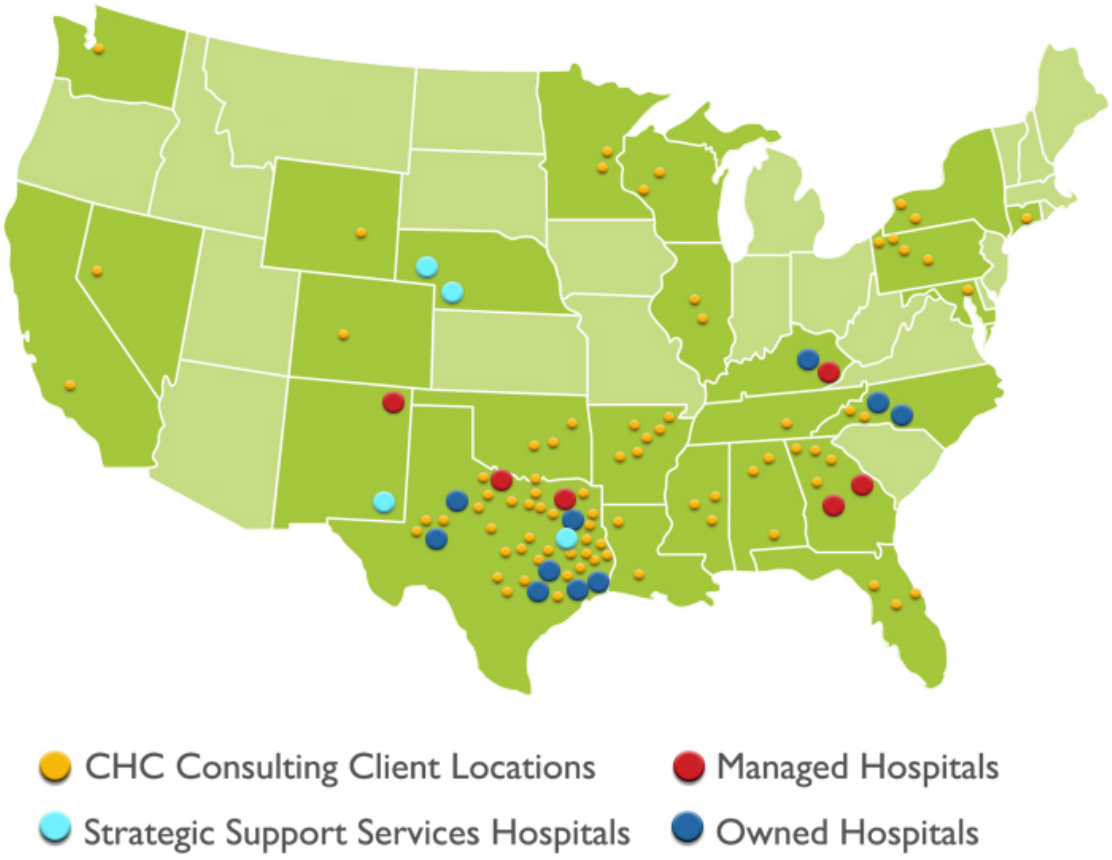
CHC ContinueCare (Long Term Acute Care)

- Carolinas ContinueCARE Hospital at Kings Mountain, Kings Mountain, NC
- Carolinas Specialty Hospital, Charlotte, NC
- ContinueCARE Hospital at Baptist Health Corbin, Corbin, KY
- ContinueCARE Hospital at Hendrick Medical Center, Abilene, TX
- ContinueCARE Hospital at Midland Memorial, Midland, TX
- Tyler ContinueCARE Hospital in Tyler, TX

Managed and Strategically Supported Hospitals

- Artesia General Hospital, Artesia, NM
- Bowie Memorial Hospital, Bowie, TX
- Burke Medical Center, Waynesboro, GA *(Governmental Hospital)*
- Community Hospital, McCook, NE *(Critical Access Hospital)**
- Great Plains Regional Medical Center, North Platte, NE
- Monroe County Hospital, Forsyth, GA *(Critical Access / Governmental Hospital)*
- Mother Frances Hospital, Winnsboro, TX *(Critical Access Hospital)**
- Nacogdoches Memorial Hospital, Nacogdoches, TX *(Governmental Hospital)*
- Pineville Community Hospital, Pineville, KY
- Union County General Hospital, Clayton, NM *(Critical Access / Governmental Hospital)*

**Hospital is highlighted in Appendix F – Relevant Experience.*



Long Term Financial Viability

CHC principally works with community-based health care organizations in smaller and rural markets. The majority of the hospitals within our system/ownership structure are in communities with less than 125,000 lives in their primary/secondary service markets. As such, we have a significant appreciation for working with rural hospitals similar to YVCH.

CHC understands that community-based hospitals are vital assets to those they serve. That's why we provide resources to strengthen and support community-based hospitals, including flexible, individualized consulting services along with ownership and management models when it makes sense. Together with hospital Boards and leaders, CHC establishes a strategic vision for the future while paving the way to operational and financial improvement. Hospitals turn to CHC with confidence because of our unwavering commitment to help preserve and protect community hospitals in the least obtrusive way and as part of a collaborative process.

Regarding re-investment of proceeds, CHC does not sweep cash from the local hospital. As such, all profits are available to be re-invested into the local healthcare sector.

Management Support and Systems

Because CHC owns/leases, manages and consults with hospitals across the country, we have developed significant processes to support improvements in clinical quality, patient, employee and physician satisfaction as well as organizational improvement. A comprehensive list of services is provided in Appendix C.

Many of the hospitals we support are small rural providers and, as such, we understand the success factors required to ensure healthy operations, including:

- **Board Engagement** – Cultural change starts at the top and with independent community based hospitals that means the Board. The hospital Board must set the strategic vision for the organization, then support and hold accountable the leadership team for moving the hospital in the right direction.

- **Annual Business Plan** – For CHC hospitals the annual business plan serves as a guidepost for success. An action plan with responsible parties and due dates turns the plan into a concrete set of actions for hospital leaders to follow. We also encourage quarterly reports to the Board describing modifications and progress.

- **Physician Alignment** – Operating in the environment of health reform, it is imperative that hospitals and medical staffs work closely together to meet quality, cost and growth goals. We recommend a Medical Staff Development Plan every three years to outline physician recruitment and growth needs. And developing an informative group of physician leaders to meet frequently to provide input to the CEO and hospital leaders insures the medical staff is engaged and participating in strategies to improve hospital performance.

- **Focus on Performance – Cost, Quality and Customer Experience** – As reimbursement rates decline and the mandate for Value Based Purchasing continues, hospital leaders must have a laser-like focus on operations – revenue cycle, staffing expense, productivity, supply chain – using metrics to monitor improvements. We believe in the value of a monthly operating review ("MOR") that includes CHC Consulting leaders and hospital leaders to review and monitor financial metrics as well as a scorecard that measures and reports core measures of clinical quality. Lastly, but of equal importance, is the need to focus on excellent customer experience – patient, employee and physician – through measurement of satisfaction surveys, action plans for areas needing improvement and open communication.

Continued Access to Healthcare Services

Upon effectuation of a relationship with CHC, our team will begin working with the leadership teams of the hospital (management and medical staff) as well as the Board leadership to develop or perform the following:

a. An operational assessment of the organization that will facilitate the development of a turnaround plan for the organization;

b. A community needs assessment in which we will better understand potential health care needs across the primary defined service area for YVCH;

c. A medical staff development plan which will provide a better insight into critical recruitment needs; and

d. A service line analysis to understand both how current services lines are performing for the organization as well as to identify potential service line needs and growth strategies.

By completing the above items, CHC will then work with the Board and leadership teams to develop an overall comprehensive organization strategic vision and plan for YVCH, which will serve as the foundation for the business plan and related action items to drive accountability for implementation.

Clinical Quality, Compliance and Patient Satisfaction

As one of our corporate goals, CHC leadership initiated strategies to educate and prepare hospitals for Healthcare Reform. It was noted that with the enactment of the Affordable Care Act (ACA) signed by President Obama on March 21, 2010, the law would have broad and far reaching implications to hospitals.

One of the goals of ACA is the "Triple Aim" proposed by Donald Berwick, Thomas Nolan and John Whittington in 2007 while at the Institute for Healthcare Improvement (IHI) in Cambridge, Massachusetts. This Triple Aim was focused on revising healthcare around 3 core values; improving the individual experience of care (quality, access, reliability); improving the health of populations; and reducing the per capita costs of care for populations. Subsequently Donald

Berwick was appointed as Administrator of CMS and influenced the development of the ACA which included healthcare programs or drivers that would achieve the Triple Aim.

CHC identified two of these ACA programs that could have a substantial economic impact to hospitals. These included Accountable Care Organizations and Value Based Purchasing.

ACO Vision
While healthcare leaders believe ACOs will become a prominent delivery model in the future, the challenge has been determining the optimum time to "build" or "join" an ACO. To date we have closely monitored development of the final rule and progress made by Pioneer ACOs. As a result we have determined the best strategy for CHC Hospitals is to continue to closely monitor the progress made by the Pioneer ACOs, as well as the markets and service areas in which our hospitals operate.

Hospitals should also consider development of physician champions, make progress toward clinical integration by aligning outcomes, implement information technology to report quality/cost data and focus on revenue cycle functions and measurements.

Value Based Purchasing
On April 29, 2011, the Department of Health and Human Services initiated a Value Based Purchasing initiative which will reward hospitals for the quality of care provided to Medicare beneficiaries and ultimately should reduce health care costs. This initiative was authorized by the Affordable Care Act and some 3,500 hospitals will be paid for inpatient acute care services based on care quality, not just the quantity of the services they provide.

Through CHC's membership in The Advisory Board we have access to facility-specific estimates of incentive payments under Hospital Inpatient Value Based Purchasing program.

Summary
While the mandated requirements of healthcare reform progress, it is clear that the resulting financial challenges will continue to be a top issue facing hospitals. CHC will continue to be an educational resource to hospitals and provide timely information on new regulations and programs.

Less the branding associated with a potential clinical affiliation with a tertiary provider in the market, CHC will work with YVCH to develop a comprehensive marketing strategy related to showcasing the hospital's clinical performance as well as quality improvements throughout the relationship with CHC.

Investments in YVCH

CHC will, as part of its annual business plan and budget process, develop with local leadership a capital budget to support growth and development of the hospital – included in this plan would be personnel growth, equipment/technology growth, facility and service line growth. CHC would ensure, as part of the business plan and budgeting cycle, that the organization is focused

on maintaining bond covenants as well as focused on prioritizing investment needs. The business plan, operational and capital budgets would be approved by the local Board.

CHC's track record and mission is to make each organization we work with credit worthy and financially independent. Because we do not sweep cash nor obligate across groups, we develop and work with the local leadership teams to implement the actions to make that independence a reality. As such, CHC does not, as a corporate entity, provide capital to our member organizations.

Physician Recruitment and Engagement

Physician alignment will be even more critical to the success of the local healthcare sector as reform on a national level takes greater clarity in the coming years. To this end, CHC strongly believes in physician engagement – both informally and formally.

We have successfully developed programs with medical staff providers by utilizing a variety of functions/structures such as – representation on the governing board, the development of an informal Physician Leadership Group, service line and whole hospital Co-Management Models, employment models and practice support models. As a component of the initial engagement, regardless of structure option explored, CHC would work with hospital leadership to develop and explore all medical staff engagement options to determine what might work best for YVCH.

In addition, we would develop a medical staff development plan to support the recruitment efforts and identify recruitment priorities for the organization. Similarly, should we explore a tertiary partnerships/relationship in the market, we would also understand physician alignment models that could exist or be developed in concert with said partner.

Hospitalist Programs

Several of our owned, leased and managed hospitals maintain traditional hospitalist programs consisting of dedicated 24-hour physician coverage with the goal of providing the highest quality of care for hospitalized patients. In addition, some of our affiliated hospitals utilize hybrid models of hospitalist coverage that are unique to the marketplace. Examples include the utilization of nurse practitioners to support the inpatient care of hospitalized patients as well as utilizing ER physicians in some of our smaller facilities to provide hospitalist-like coverage for inpatients. It would be CHC's intent to meet with the Board, quality leadership at the hospital, and existing medical staff to determine the most appropriate model of care for YVCH inpatients.

Current Employees

Regardless of which option YVCH explores further, our Human Resources teams would work with local HR representation to analyze current benefits and cost parameters to determine if there were organizational opportunities to reduce the expense of the provided benefits to employees.

Under the §509(a)(3) structure, employees would remain employed with the local §501(c)(3) organization but the organization could take advantage of the economies that CHC would bring under its ownership scale. This could represent a significant savings for YVCH without significant change to the benefits as currently provided. We would assume that all employees would continue in their employment unless it were to be determined that a change in productivity could be realized by the organization that would positively impact overall operational performance. Both the productivity review as well as the benefits analysis would be a core component of our initial operational assessment.

Governance

Should YVCH consider the CHC §509(a)(3) leasing option, a local §501(c)(3) Board will remain in control of the organization less the reserve powers as outlined in the proposal. Given the complexity of the structure, a detailed face-to-face education session is recommended. Principally, the local Board makes local decisions. There is also the possibility within this structure option for a representative of the local YVCH Board to sit on the corporate CHC board. As a §509(a)(3) organization, we are governed at our corporate level by the membership we serve, thus providing for a significant "check and balance" to governance.

Should YVCH decide to engage CHC under one of the proposed management structure options, the local YVCH Board would maintain control with CHC servicing in an advisory capacity only.

Continuation of Core Services

As previously stated, one of the action items that would be initiated upon effectuation of a relationship with CHC would be the development of a community health needs assessment for the hospital. In doing so, CHC would be able to determine which service offerings were being optimally utilized and which, if any, might be appropriate to alter should it be determined that doing so would have an overall net positive impact on the hospital. That said, the Board would ultimately make final decisions regarding service line offerings.

Charitable Care, Bad Debt, and Indigent Care

Under the §509(a)(3) structure, CHC will provide a corporate charity care and bad debt policy recommendation for consideration of the Board of YVCH. Principally, CHC supports the overall policies that are approved by the local §501(c)(3) governing body. That said, minimally we would ensure that the policy(ies) adopted by the local Board meets the minimal requirements as established by the IRS and as recommended in the CHC corporate policy (see Appendix F.)

Additional considerations

One of CHC's Corporate Strategic Initiatives is to "Nurture and promote the CHC culture." This emphasis on culture permeates throughout the organization from our recruiting and hiring practices through annual performance appraisals and reviews.

Examples of our organization supporting improvements in organizational culture to build employee alignment and satisfaction include:

- **Hospital CEO and CFO evaluation** – CHC recently initiated a process of redesigning our performance evaluations for hospital CEOs and CFOs to address and reflect our corporate cultural values. Now, in addition to evaluating the financial and operational performance at their facility, hospital executives are also evaluated on how well their organizations reflect the corporate culture established by CHC, including the values of respect, integrity, stewardship, and excellence.

- **Community Hospital Incentive Pay Plan** – CHC strongly believes that front line employees are critical to the success of the hospital. In 2008, we initiated an incentive pay plan for front line employees with the following goals:
    - Align employee and department goals with hospital goals
    - Improve quality and other key performance metrics
    - Attract and retain talent
    - Reward achievement of hospital-wide, department and employee goals
    - Achieve hospital financial goals

  The plan only pays if the hospital meets the budgeted financial performance and the payment amount to the employee is based on the employee salary and their individual performance during the year, and focuses employees on physician and patient satisfaction and quality metrics. At least 60% of hospitals have paid out each year, and two hospitals have paid out four consecutive years.

- **Annual employee satisfaction/scores** – All employees are surveyed on an annual basis and all CHC hospital CEOs are required to share the results with their employees. In addition, the five (5) lowest scoring categories are identified and action plans are developed to address these specific issues. Finally, CEOs are required to conduct company "town-hall" meetings to communicate, among other things, how the hospital is doing regarding improvements in those areas.

Annual Recognition – Because CHC believes so strongly in our mission, values, and culture, we have developed several platforms to recognize those employees within our network who have demonstrated excellence in various areas, including:

- **President's Leadership Excellence Award** recognizes an outstanding leader who is a role model of CHC's values - respect, integrity, stewardship and excellence and one who is inspirational, visionary, and passionate about enhancing health care in the community.
- **Dan Wilford Award for Compassion and Community Service** recognizes extraordinary care, compassion and concern for the health and welfare of the community.
- **RISE Award** recognizes those who are living examples of our CHC core values – Respect ~ Integrity ~ Excellence ~ Stewardship - which help us RISE above our challenges.

Our Values Defined – What we strive to be…

Respect – We are compassionate, concerned and conscientious, and we integrate a faith-grounded approach into our relationships. We work together cooperatively regardless of status, location or personal differences and extend our team spirit to clients, our communities and all our business partners. We emphasize open, candid, responsive and timely communication and follow-up. We treat others as they want to be treated. We listen and acknowledge each other's ideas and concerns. We value individual differences and seek to better understand our differences to build stronger relationships. We value people and will work to create an inclusive atmosphere where employees feel free to enjoy their work and have fun.

Integrity – We are honest and adhere to the highest standards of integrity and ethics in dealing with clients, suppliers, our communities and each other. We operate from a position of transparency in our practices, relationships and commitments. We believe in doing what is right – even in the face of challenges. We know CHC's reputation is built upon each of us being accountable and accepting responsibility for our behavior and performance. We will make Community Hospital Corporation a name worthy of trust.

Stewardship – We carefully and responsibly manage CHC's resources along with those entrusted to us by our clients. We are supportive of and sensitive to our clients' mission as we work to preserve and enhance community owned hospitals. Caring is as important as results. We work to educate our clients, develop their knowledge base and improve their skill level so that they can improve operations, satisfaction and patient care through careful and responsible management. Each employee takes personal ownership for CHC's success and accepts responsibility and accountability for his/her actions and work product.

Excellence – We are committed to supporting the pursuit of excellence at CHC and all of our hospitals. We strive to further the quality of healthcare in the communities we serve. We embrace creativity and encourage the application of innovation in our processes, ideas, products and services. We encourage and support the development of our people resources by providing developmental and learning experiences to our employees.

Ownership/Leasing Structure Option – §509(a)(3) Ownership/Leasing Model Overview

Becoming Part of the CHC Family of Hospitals

Services Provided Through CHC Corporate Relationship §509(a)(3) Ownership/Leasing Structure

CHC provides a unique opportunity for a non-profit organization (§501(c)(3)) to become a part of the CHC system of non-profit tax-exempt hospitals. CHC, in its role as a support organization of constituent institutions, operates as a governance and support organization while the participating hospital corporations of CHC are integrated into a more advantageous organizational structure. The system of corporate relationships allows the constituent hospitals to be able to continue providing quality care, sustain and improve patient satisfaction, develop a model for joint ventures with members of its respective medical staffs, negotiate with managed care providers, consolidate costs and develop long term market specific growth models to meet and exceed the needs of the many communities served by our membership – **while, maintaining a large measure of autonomy and local control.**

Under this organizational structure CHC becomes the corporate member of the hospital organization. Additionally, depending upon the nature of the relationship with CHC, the hospital organization could become a member of CHC. However, regardless whether the hospital organization is a corporate member of CHC, all hospital organizations in the CHC system of hospitals receive the same level of services from CHC and are subject to the same oversight and governance of CHC and its Board of Directors. The oversight of the hospital organization is carried out through the daily management of the hospitals as well as reserved powers of CHC which would require the approval of CHC of certain actions of the hospital organization. Typically these reserved powers would include most, if not all, of the following:

(a) the establishment of or any change in the activities, philosophy, mission or purpose of the corporation;

(b) any amendments or revisions to the articles of incorporation or bylaws of the corporation;

(c) the creation, termination or amendment of, or investment in, any subsidiary entity, partnership or venture;

(d) the annual operating and capital budgets of the corporation;

(e) all material expenditure deviations from the annual operating and capital budgets;

(f) the purchase or acquisition of any real, personal, or mixed property by the corporation not provided for in the corporation's annual operating or capital budgets;

(g) the sale, mortgage, encumbrance, transfer, lease, gift, or other disposition of any real property of the corporation;

(h) any debt or financing arrangement of this corporation, except usual and customary trade debts;

(i) the merger, dissolution, or consolidation of the corporation or subsidiary corporation;

(j) the execution, revision, amendment, extension, non-renewal or termination of major contracts;

(k) any debts, loans, guaranties, or grants not included in the annual budgets;

(l) the election or removal of the members of the board of directors;

(m) the engagement of or removal of the hospital administrator; and
(n) establishment of benefits programs of the corporation.

As a part of the CHC system of hospitals, the hospital organizations do not pay the typical management fee for the oversight and management services of CHC. Alternatively, the cost associated with the operations of CHC in providing its oversight and management services is allocated to the constituent hospital organizations historically based upon the an allocation of corporate overhead of CHC, with some allocation based upon adjusted patient days and other allocations based upon a negotiated amount of the costs of providing services to the member hospital. Regardless of which arrangement is agreed upon, the fee assessed to each member does not contain the typical profit margin associated with for profit management companies. As such, profits generated by YVCH would remain local as CHC does not sweep cash. Similarly, YVCH is protected from a credit perspective as CHC does not obligate is members by group.

Additionally, and unique to this relationship, YVCH and CHC can negotiate an unwind provision that either organization could determine, after a given amount of time (typically 5, 7 or 10 years) that it is in the best interest of the organization to terminate its relationship. As such, this structure represents a unique option in that YVCH does not have to sell its asset to become part of a larger system.

Under the §509(a)(3) structure, YVCH and CHC can identify a potential tertiary partner in the market in which market synergies could be identified and realized. These synergies can be developed through a Clinical Affiliation relationship, co-branding opportunity and even up to a sub-class membership within the §509(a)(3) structure.

The §509(a)(3) ownership/leasing structure is diagrammatically provided in Appendix A. See Appendix B for Fee Structure overview for the §509(a)(3) ownership/leasing structure.

Types of CHC Corporate Relationships

The corporate relationship with CHC can take two forms; with or without reservation. Under the "without reservation" relationship, CHC becomes the member of the hospital corporation, and this relationship will continue until such time as the respective boards of CHC and the hospital organization decide it is no longer in the best interest of the hospital organization to be a part of CHC. Under the "with reservation" relationship, the board of directors of the hospital organization, on its own accord, can terminate the relationship with CHC prior to the end of the agreed upon term if CHC should fail to obtain certain agreed goals. Other than this distinction, all hospital organizations with a CHC corporate relationship receive the same type and level of services.

Management Services Options

Community Hospital Consulting – Full Management Option

Yadkin Valley Community Hospital

Proposed Services Provided Under a Full Management Agreement with Yadkin Valley Community Hospital

CHC Consulting will be responsible for the following aspects of the hospital:

- Overseeing **day to day operations**
- Providing **operational assessments**
- Conducting and facilitating **Board education** including an annual planning retreat
- Providing **management support** tools
- Developing and implementing appropriate **policies and procedures**
- Securing **supplier and vendor contracts** (accessing CHC Consulting's group purchasing arrangements when available)
- Providing advice and consultation to **managed care** contracting
- Overseeing **materials management**
- Providing oversight of **maintenance and repairs**
- Oversight of **financial affairs** including
    - Review and recommendations relative to charge master structure
    - Development and presentation of financial reports
    - Assistance with and maintenance of appropriate charity care, bad debt and credit and collection policies and procedures
    - Appropriate payment of accounts and indebtedness
    - Appropriate accounting and financial record keeping
    - Submittal and oversight of annual budget
- Reviewing **insurance programs** and initiatives and providing recommendations relative to cost saving opportunities
- Reviewing **quality initiatives** and providing recommendations relative to meeting and exceeding appropriate legislative and regulatory guidelines
- Providing information and recommendations for **board decisions** relative to:
    - Facility improvements and expansion
    - Equipment purchases and capital budgets
    - Marketing and public relations activities
    - Provider and payor relationship initiatives
    - Strategic planning
    - Physician relationships and recruitment opportunities
    - Business development planning and strategic financial forecasting
- Assessing and supporting **human resources**

Executive Management Team

- Provision of Chief Executive Office, Chief Financial Officer and Chief Nursing Officer (salary and benefit cost will be a pass through expense)
- Provision of Interim Management of CEO/CFO during transition from current management company (salary and benefit cost will be a pass through expense) if applicable
- Accountability for the day-to-day operations of the hospital

Board Support

- Attend ALL Board meetings; attend Finance Committee in person or by phone
- Serve as an advisor to Board and Board Chair
- Provide Education Services to Board
- Assist with annual CEO evaluation including annual compensation review
- Provide support to the CEO and management team on behalf of Board
- Provide an annual report to the Board regarding operational performance of YVCH
- Facilitate an annual strategic planning process for the Board
- Provide national search and recruitment support for CEO and CFO (cost separate from management fee)

CEO Support

- Provide operations support to CEO
- Establish bi-weekly calls and monthly meetings with CEO as well as be an available resource for the CEO as needed
- Conduct monthly operations reviews with Senior Leadership Team
- Pull together and host Senior Leadership Team (CEO/COO/CFO/CNO) at an annual education conference in Dallas
- Provide management support tools

Financial Management

- Accounting/ Budgeting systems development and implementation
- Accounts receivable valuation analysis
- Business office and revenue cycle assessment including post billing denial management
- Revenue cycle and reimbursement assessments
- Contractual analysis
- Service line cost analysis and feasibility
- Managed Care assessments and strategies

Operations and Facility Services

- Comprehensive hospital operations assessments
- New/expanded facility development and program management
- Productivity management and access to CHC Consulting Productivity Tool

Clinical Services

- CNO Networking
- Joint Commission or other accrediting assessment and preparation
- Nursing Leadership Development

Medical Staff Development

- Medical Staff Development Planning
- Alignment Strategies
- Leadership Development

Education Services

- Annual Physician/Trustee/CEO conferences featuring nationally known health care leaders – (cost would be outside of management fee)
- Executive and physician leadership development programs
- Staff education and leadership programs – (cost would be outside management fee)
- Board education and leadership programs

Strategy

- Participation in board annual strategic planning and executive recruitment meetings
- Business plan development
- Marketing plan and community/public relations development and analysis
- Crisis management support
- Service line development planning
- Balanced Score Card - Assess organizational benchmarking and development of administrative report to monitor trends in healthcare quality and operational effectiveness
- Physician alignment/co-management models

Internal Audit Services and Compliance recommendations

- Assessment, implementation and monitoring assistance
- Survey preparedness and readiness assessments
- Advice on policies and procedures
- Implementation support of internal controls
- Cost savings over use of external consultants
- Coordinate efforts with external audits

Human Resource Management

- Executive compensation analysis
- Wage and salary administration and analysis
- Benefit plan analysis
- Policy and procedure assessment

Insurance Risk Management Services

- Access to wholly owned, offshore, multi-cell captive insurance company
- Risk management assessment of existing loss prevention and loss control processes for operational exposures
- Focused clinical risk management assessment program to measure the effectiveness of specific departments, services or line of insurance coverage

Legal Services

- Board Education
- Legal updates for Senior Leadership Team

Supply Chain Cycle

- Group purchasing services including continued access to HealthTrust Purchasing Group ("HPG") as well as any group contracting opportunities that may exist within the CHC group
- Product standardization
- Supply chain assessment and optimization
- Pharmacy purchasing and cost review
- Supply chain management outsourcing

Information Technology

- Data security and disaster recovery assessments
- Systems analysis

See Appendix B for an overview of the Fee Structure for the Full Management Option.

Community Hospital Consulting – Support Services Option

Yadkin Valley Community Hospital

Proposed Services Provided Under a Board and Executive Advisory Services Agreement with Yadkin Valley Community Hospital

Board and Executive Advisory Services Program

The Board and Executive Advisory Services Program brings to YVCH an objective third party specialist that can provide advice and over 200 years of collective expertise to the Board and hospital administrative team to help guide the operations and direction of the hospital. In this option, the CEO and other C-Suite leaders are employees of the hospital rather than CHC employees. With this type of engagement, CHC Consulting will act in an advisory role and will provide the following services:

Board of Directors

- Attend every Board of Directors meeting. Attendance at the board meetings will be by one of the following executives of CHC Consulting: CHC's Executive Vice President/COO, CHC's President/CEO or a CHC Senior Vice President;
- Attend, as needed and as requested (either in person or through available technology) Board committee meetings;
- Provide a review of and benchmarking comparative information related to the financial performance of the organization:
    - Provide the Board with CHC Consulting's Financial Reporting Packet to determine any opportunity for report development;
    - Provide the Board with CHC's "Balanced Scorecard" for consideration of similar report development;
    - Provide a quarterly report, in conjunction with the leadership team of YVCH, outlining CHC Consulting's review of and any recommendations regarding YVCH prior month and year to date performance as it relates to financial, strategic, operational, patient satisfaction, quality, etc;
- Conduct, as customized and agreed to, an annual operational assessment of the organization and provide a summary report of said assessment;
- Provide benchmarking data and comparative information related to Board Quality oversight;
- Provide Education Services to the Board that would include:
    - General and Annual education related to Board responsibilities;
    - Opportunity to attend annual Trustee and Physician Conference (travel costs of attendees would be at YVCH expense);
    - General Industry trends and education;
    - Health Policy Update and Education;
- Assist with annual CEO evaluation including annual compensation review of all executive team members;
- Support the Board in its oversight of the CEO and his/her team;
- Facilitate an annual strategic planning process for the Board that could include:
    - A full retreat and development of a Strategic Plan or
    - A review and annual update process of the most current Strategic Plan, AND

  - An integration of the planning process into the annual operations budget, business plan and capital budget development; AND
  - Review of or development with the leadership team, a Strategic Action Plan to support measurement and performance of the organization's strategic direction.
- Initiate, with the approval and request of the Board, an Internal Audit function/process of the Finance Committee with quarterly reporting to the Board;
- Assist with Budget and annual Business Plan review;
- Provide a network of Board/Trustee contacts;
- Provide and assist the Board with its annual self evaluation;
- Provide an annual report to the Board regarding operational performance of YVCH; and
- Provide a process for the Board to evaluate CHC Consulting annually as well as determine "return on investment" for services provided.

Executive Management Team

- Provide operations support to CEO;
- Establish communication schedules with the CEO and leadership team as needed;
- Provide a peer level network of executive team members for contacting by YVCH Executive Leadership team;
- Conduct monthly operations reviews with Senior Leadership Team;
- Host Senior Leadership Team at annual CHC Executive Leadership Team meeting in Dallas; and
- Provide management support tools as further defined below and as requested by the leadership team.

Consulting Services

Upon acceptance of an Engagement Letter and within ninety (90) days of the start of the engagement, CHC Consulting will work with the leadership team at YVCH to develop a support calendar outlining key initiatives that YVCH is focused on as well as define key consulting services that YVCH may desire to explore and access. This calendar is intended to serve as a guide for the relationship and can be modified at any time during the term of the agreement.

CHC Consulting will provide the following consulting services to YVCH as part of this engagement:

- Supply Chain Cycle Support and Group Purchasing Organization ("GPO") Access;
- Productivity Reporting Tool and Support;
- Revenue Cycle Assessment and Support;
- Support of "remarketing" of any current insurance product
- Provide executive leadership team with access to other CHC Consulting reporting tools to determine applicability and fit to YVCH; and
- Joint Commission Mock Survey and Preparatory Review.

YVCH may access other CHC Consulting Services at a Preferred Partner Rate at any time. Specific engagement letters defining scope, timeframe, deliverable(s) and cost(s) would be

provided for such access/request of services that are outside of the above noted core services for the Board and Executive Advisory Services Program.

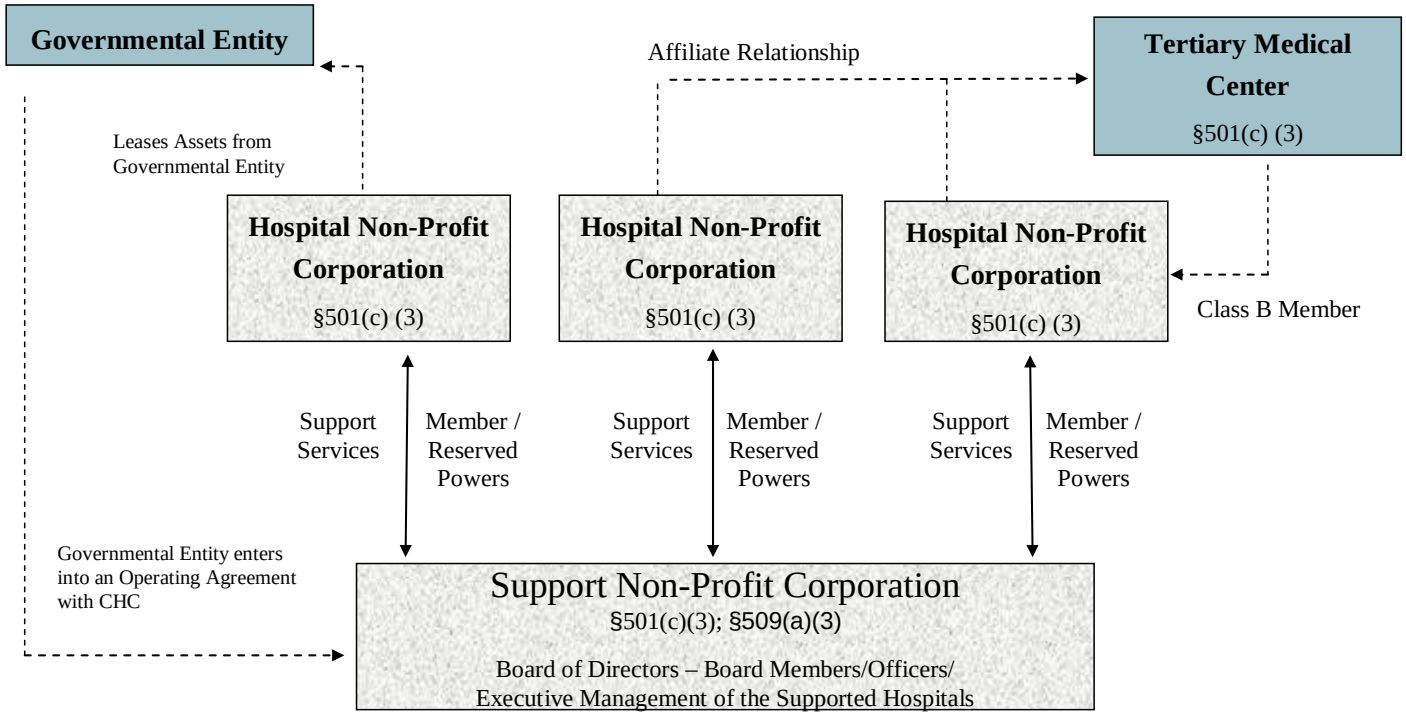
See Appendix B for an overview of the Fee Structure for the Support Services Option.

Appendices

Appendix A – §509(a)(3) Ownership/Leasing Structure Overview
Appendix B – Fee Schedules
Appendix C – Consulting Services
Appendix D – Medicare and Licensure/Accreditation Statements
Appendix E – Description of Insurance Coverage
Appendix F – Relevant Experience
Appendix G – Charity (Indigent) Care Policy
Appendix H – Audited Financials

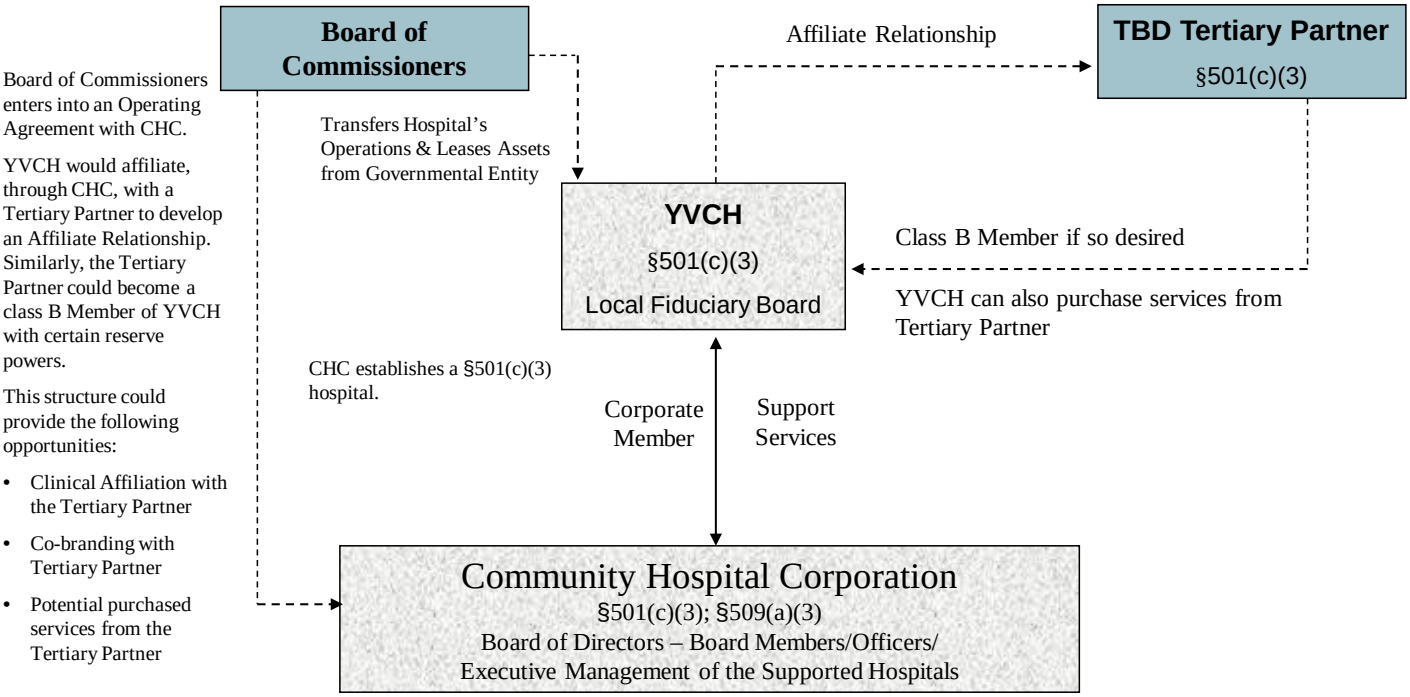
Appendix A – §509(a)(3) Ownership/Leasing Structure Overview

CHC §509(a)(3)
Support Organization Model and Overview



The above schematic represents the legal organizational structure of Community Hospital Corporation. CHC is a §509(a)(3) support organization in which it is the corporate member of five acute care hospitals.

§509(a)(3) Support Organization Leasing Model with Yadkin Valley Community Hospital and a Potential Class B Membership



As proposed in the response to the CDM, the above schematic represents the potential structure of which CHC could become the corporate member of YVCH allowing YVCH to be part of the CHC system.

As a component of this structure, CHC could work with the leadership teams at YVCH to determine a "best fit" tertiary partner and provide a structure in which YVCH could align with that tertiary partner to define:

1) A clinical affiliation
2) A branding agreement
3) Joint venture opportunities
4) Physician alignment opportunities including the development of a co-management structure

Appendix B – Fee Schedules

Fee Schedule – §509(a)(3) Ownership/Leasing Structure Option

Yadkin Valley Community Hospital

Under the §509(a)(3) structure, CHC allocates to each member hospital a portion of the corporate overhead with some allocation based upon adjusted patient days and other allocations based upon a negotiated amount of the costs of providing services to the member hospital. Regardless of which arrangement is agreed upon, the fee assessed to each member does not contain the typical profit margin associated with for profit management companies.

Each fiscal year the Board of CHC reviews and approves the corporate budget, which represents the cost to provide support and services to the CHC membership. The cost varies from year to year.

Executive Compensation

All salary, wages, benefits (including incentive compensation) and appropriate severance expenses will be passed through the YVCH at cost for Executives that become part of the CHC organization that will provide services on site at YVCH. This would include the provision of any interim management position(s) during and through the transition of any current management relationship(s) to services provided by CHC Consulting.

Expenses

In addition to fees noted above, CHC will invoice YVCH, in a timely fashion, out-of-pocket expenses incurred by CHC in performing the services under this proposal.

For executive recruitment, YVCH will be responsible for expenses incurred by potential candidates traveling to CHC for interviewing as well as to YVCH for interviewing. Expenses would also include appropriate relocation costs for the incumbent and his/her family to relocate to the YVCH service area.

Fee Schedule – Full Management Option

Yadkin Valley Community Hospital

The following Fee Schedule outlines the cost of services and general term for a Full Service Option services as prior outlined:

Fee $35,000 per month (annualized to $420,000)

Term 5 years

Escalator After initial two years of term, the fee will be automatically adjusted for CPI

Executive Compensation

All salary, wages, benefits (including incentive compensation) and appropriate severance expenses will be passed through the YVCH at cost for Executives that become part of the CHC Consulting organization that will provide services onsite at YVCH. This would include the provision of any interim management position(s) during and through the transition of the current management relationship to services provided by CHC Consulting.

Expenses

In addition to fees noted above, CHC Consulting will invoice YVCH, in a timely fashion, out-of-pocket expenses incurred by CHC Consulting in performing the services under this proposal.

For executive recruitment, YVCH will be responsible for expenses incurred by potential candidates traveling to CHC Consulting for interviewing as well as to YVCH for interviewing. Expenses would also include appropriate relocation costs for the incumbent and his/her family to relocate to the YVCH service area.

Fee Schedule – Support Services Option

Yadkin Valley Community Hospital

The following Fee Schedule outlines the cost of services and general term for a Board and Executive Advisory Support services as prior outlined:

Fee $25,000 per month (annualized to $300,000)

Term 5 years

Escalator After initial two years of term, the fee will be automatically adjusted for CPI

Expenses

In addition to fees noted above, CHC Consulting will invoice YVCH, in a timely fashion, out-of-pocket expenses incurred by CHC Consulting in performing the services under this proposal.

Additional Consulting Services

YVCH would have access to the full menu of consulting services provided by CHC Consulting at a Preferred Partner Rate that are not already inclusive to the noted and defined services as provided in the Support Services Option section of this response.

Appendix C – Consulting Services

Community Hospital Consulting Core Services

CHC is unique as an organization. The fact that we are structured to own, manage and consult with hospitals across the country has required our organization to develop unique processes related to hospital operational oversight and performance. The insights gained from being accountable to our Boards in our various locations as well as being a support organization for the leadership teams at all of our relationships has resulted in the framing of operational performance into the following core competencies:

Compliance
- Assessment, implementation and monitoring assistance
- Survey preparedness and readiness assessments

Education Services
- Annual Physician/Trustee/CEO conferences featuring nationally known health care leaders
- Executive and physician leadership development programs
- Staff education and leadership programs
- Board education and leadership programs

Executive Placement
- Provision of CEO/CFO/CNO and other managerial positions
- Candidate sourcing, evaluation and recommendation
- Interim CEO/CFO placement and support

Financial Management
- Accounting/ Budgeting systems development and implementation
- Accounts receivable valuation analysis
- Business office and revenue cycle assessment including post billing denial management
- Revenue Cycle and Reimbursement assessments
- Charge master review
- Coding assessment and audit
- Contractual analysis
- Cost report analysis and preparation
- Service line cost analysis and feasibility
- Managed Care Assessments and Strategies

Supply Chain Cycle
- Group Purchasing services
- Product standardization
- Supply chain assessment and optimization
- Pharmacy purchasing and cost review
- GPO access
- Supply chain management outsourcing

Information Technology
- Applications development and support
- Data security and disaster recovery assessments
- Systems analysis

Internal Audit Services

- Advice on policies and procedures
- Implementation of internal controls
- Cost savings over use of external consultants
- Coordinate efforts with external audits

Human Resource Management

- Executive compensation analysis
- Wage and salary administration and analysis
- Benefit plan analysis and access to group benefit plans and the savings associate therewith
- Policy and procedure assessment
- Employee Relations

Insurance Risk Management Services

- Wholly owned, offshore, multi-cell captive insurance company
- Risk management assessment of existing loss prevention and loss control processes for operational exposures
- Focused clinical risk management assessment program to measure the effectiveness of specific departments, services or line of insurance coverage

Medical Staff Development

- Medical staff development planning
- Recruitment strategies
- Leadership development

Operations and Facility Services

- Comprehensive hospital operations assessments
- Demand-side management and technology integration
- New/expanded facility development and program management
- Productivity management
- Wayfinding and signage strategies
- Facility environmental evaluation

Strategy

- Participation in board annual strategic planning and executive recruitment meetings
- Business plan development
- Marketing plan and community/public relations development and analysis
- Crisis management
- Service line development
- Assess organizational benchmarking and development of administrative report to monitor trends in healthcare quality and operational effectiveness
- Post acute care service line development
- Physician alignment/co-management models

Legal Services

For owned facilities

- Practically the full range of healthcare, transactional and corporate legal services
- Supervision of outside legal services, including commercial litigation

For owned and managed facilities

- Board and management education

Appendix D – Medicare and Licensure/Accreditation Statements

Medicare and Licensure/Accreditation Statements

Neither CHC, any of its subsidiaries, owned/leased hospitals, managed hospitals, nor corporate officers/directors has ever been subject to the following:

- Exclusion or Suspension from any federal healthcare program including:
    - Medicare
    - Medicaid
    - TRICARE

Neither CHC, any of its subsidiaries, owned/leased hospitals, nor managed hospitals has ever had its license or accreditation suspended, revoked or denied.

Appendix E – Psychiatric/Behavioral Health Statement

Psychiatric/Behavioral Health Statement

CHC is committed to serving all patients that present to our hospitals for care, including behavioral health patients. For example, one CHC facility provides inpatient behavioral health services for adolescents and adults, including a geriatric program. The emergency department is the portal of entry for a majority of behavioral health patients and protocols are in place to provide a seamless transition from the ED to inpatient status or to provide an effective handoff to continued care in the outpatient setting when the patient is discharged to home. This facility has on-going interaction with state psychiatric hospitals, community resources, law enforcement and other hospitals in the market to promote communication and collaboration in providing a continuum of care for this challenging patient population.

Appendix F – Description of Insurance Coverage

Description of Insurance Coverage with Carrier and Policy Limits

CHC Consulting has professional liability coverage. This coverage is for errors and omissions and applies to any negligence, error or omission claims made against Community Hospital Consulting for professional services.

The coverage is with Allied World Surplus Lines Insurance Company or AWAC as they are known. The Limit is $5,000,000 maximum for each claim and for all losses.

Appendix G – Relevant Experience

Project Profile: Yoakum Community Hospital

Yoakum Community Hospital
Yoakum, Texas

Engagement Type:
Owned/Leased Hospital

Client Overview:
Critical Access Hospital (25 beds) in South Central Texas

Key Statistics:
- Annual Admits: 1,198
- ER Visits: 3,851
- FT Employees: 175

Reference:
Elorine Sitka, Board Member / Former Board Chair
(361) 293-5225

Background – Yoakum Community Hospital is a 25-bed, critical access hospital located in the heart of the Texas Hill Country. The town of Yoakum is 80 miles from Austin, 130 miles from Houston, and 40 miles from Victoria, the closest sizable community with a population of 62,000.

The Situation – Like other small community hospitals in rural areas across the United States, YCH was struggling financially. Declining reimbursements, an unfavorable payer mix and sagging hospital operations had together created a negative bottom line.

The Plan – CHC worked with YCH to set up a private 501(c)3 organization and leased the hospital assets from the local hospital authority. This allowed the hospital to remain as a NFP organization that could continue to serve the health needs of the community and remain under local governance. CHC also began providing resources, support and guidance to hospital leadership with a primary focus on identifying areas needing improvement and establishing methods of planning and implementing changes needed for success.

The Results – Today, the financial picture at YCH is drastically improved from 2004. The bullets below highlight some of the financial improvements:
- EBIDA went from ($182,000) in FY 2004 to $2.0 million in FY 2012
- Days cash on hand went from 10 in FY 2004 to 41 in FY 2012

“You can feel the difference at our board meetings. When I came on the board, things were bleak in terms of profitability,” said Elorine Sitka, former Board Chair. “Today we have a strong board and dependable trustworthy leadership all working for a common purpose.”

Project Profile: St. Mark's Medical Center

St. Mark's Medical Center
La Grange, Texas

Engagement Type:
Owned/Leased Hospital

Client Overview:
Rural community hospital (65 beds) serving Central Texas

Key Statistics:
- Annual Admits: 2,285
- ER Visits: 10,050
- FT Employees: 213

Reference:
Joe Bailey,
Board Chair
(713) 304-6437

Background – St. Mark's Medical Center is a 65-bed, rural community hospital located in Central Texas. The town of La Grange is located halfway between Houston and Austin and has a population of approximately 5,000. St. Mark's offers advanced services and programs including a serene birthing center, specialty clinics, comprehensive public health services and specialized nutrition programs for women, infants and children.

The Situation – In 2007, St. Mark's Medical Center finalized the construction and relocation of its operations into its new "state of the art" campus. While the building represented a new direction in the legacy of SMMC, operationally, the organization was struggling financially – a situation that represented a significant limitation to its future. Faced with possible bond covenant violations and trending decrease in cash flows, the Board sought a solution that could support the hospital while allowing the community to maintain local control.

The Plan – CHC worked with the leadership teams at SMMC to develop a turnaround plan, recruit a new CEO and create a vision for the organization that the employees and community could understand. In doing so, SMMC was positioned as more of a "regional" provider, taking advantage of its new campus. CHC also began analyzing the market for a potential tertiary partner who could bring to the hospital a higher level of clinical support. Similarly, both the Board at SMMC and CHC determined, after working together under the turnaround support structure, that both organizations could benefit from a greater alignment. To this end, SMMC became part of the CHC Hospitals organization and created a clinical affiliation relationship with St David's HealthCare in Austin.

The Results – Today, the financial picture at SMMC is drastically improved from 2007. The bullets below highlight some of the financial improvements:
- EBIDA went from ($1.6M) in FY 2008 to $3.5 million in FY 2011
- Days cash on hand went from 6 in FY 2008 to 36 in FY 2011

According to Weldon Koening, former Board Chair, "CHC is focused on results and relationships…their support has helped us increase volumes, improve physician relationships and add key hospital leadership."

Project Profile: Mother Frances Hospital – Winnsboro

Mother Frances Hospital – Winnsboro
Winnsboro, Texas

Engagement Type:
Managed Hospital

Client Overview:
Critical Access Hospital (25 beds) in Northeast Texas

Key Statistics:
- Annual Admits: 730
- ER Visits: 5,436
- FT Employees: 137

Reference:
Janet Coates,
CEO
(903) 342-3960

Background – Mother Frances Hospital-Winnsboro is a Critical Access Hospital providing acute care services to the communities of Northeast Texas. The hospital emphasizes compassionate, quality care and patient satisfaction.

The hospital offers a range of services that include Trinity Clinic primary care and cardiology, 24-hour emergency care, diabetes education, general surgery, inpatient care, and wound care that includes hyperbaric medicine. Mother Frances Hospital - Winnsboro also offers a 10-bed inpatient unit dedicated to treating senior adults with mental and behavioral disorders. The hospital totals 25 acute care beds and serves the residents of Wood, Franklin, Hopkins, Rains and Camp counties in Northeast Texas.

The Situation – The hospital was originally designed as a 50-bed rural provider. After years of financial struggles, the community elected to outsource management of the facility to Texas Health Resources (based in Arlington, TX.) Unfortunately, the change in management did little to affect the performance of the hospital. In early March 2010, Trinity Mother Frances assumed responsibility for the hospital and turned to CHC for support. CHC Consulting has provided management services to the hospital since that time.

The Plan – CHC Consulting has provided management services to the hospital since being acquired by Trinity Mother Frances. CHC was originally engaged to develop a turn-around plan for the hospital, convert it to Critical Access Designation, and transition it to the new ownership.

The Results – Today, the financial picture at MFH-Winnsboro is drastically improved. The hospital has successfully converted over to Critical Access Designation, improved net income from ($4.2M) to a projected $1.6M EBIDA margin and $1.4M operating margin in FY14. In addition, the hospital has been able to re-engage with local physicians and improve physician relations.

Project Profile: Community Hospital

Community Hospital
McCook, Nebraska

Engagement Type:
Strategically Supported Hospital (year-round, multi-faceted advisory services)

Client Overview:
Critical Access Hospital serving southwest Nebraska and Northwest Kansas

Key Statistics:
- Beds: 25
- FT Employees: 188
- Total Discharges: 934

Reference:
James Ulrich, CEO
(308) 344-8333

Background – Community Hospital is a 25-bed, critical access, not-for-profit facility serving 30,000 residents in southwest Nebraska and northwest Kansas. Community Hospital recently completed a $29 million expansion project including a new surgery wing, dedicated 38 years to the day after the hospital first opened.

The Situation – Lured by the promise of pooled purchasing power and best-practice sharing, Community Hospital previously purchased supplies and services from a well-known national hospital network. But the "strength in numbers" theory ultimately did not pan out, as hospital leaders over time felt increasingly powerless and ignored. "As a smaller hospital, we were subject to higher fees and less representation," says president and CEO James Ulrich.

The Plan – As Community Hospital was not looking to enter into another membership contract, CHC put together a custom package of services according to the hospital's needs, including analyses of supply spend, revenue cycle and productivity. CHC provided a team of experts whereas the previous firm assigned a single individual to assist the hospital. Custom services included: converting to CHC's GPO; negotiating custom orthopedic implant contracts; developing a relocation plan for the hospital following hospital expansion; driving perioperative process improvement; and implementation of CHC's productivity tool across every cost center in the hospital.

The Results – A bad experience "drove us to CHC but it's kind of like being driven to heaven. The more we're with CHC, the more we regret that it took us so long," Ulrich says.

In Fiscal Year 2011, Community Hospital saw supply spend savings of $440,000 and payroll savings of $500,000. In FY2012, savings on orthopedic implants alone are expected to approach $500,000. Due to better contracts and more efficient processes, savings of more than $1 million has been built into the supply and labor budgets for 2013.

Appendix H – Charity (Indigent) Care Policy

CHC Community Hospital Corporation

POLICY & PROCEDURE

SPONSOR: General Counsel	**AREA:** Legal
SUPERCEDES: 7/1/11	**DESCRIPTION:** Charity Care
APPROVED: 6/01/12	**REFERENCE:** LAW004
EFFECTIVE: 6/01/12	**PAGE:** 1 of 18

Policy:

Charity care and government sponsored indigent health care shall be provided at a level which is reasonable in relation to the community needs, the available resources of the hospital, and tax exempt benefits received by CHC and its hospitals.

This policy shall cover the provision of charity care to individuals who reside within the service area of any CHC hospital, who receive medically necessary services from a CHC hospital, and the process by which each patient's ability to pay for his or her medical care. CHC hospitals shall treat all patients with emergency medical conditions without regard to their ability to pay, in accordance with applicable federal and state law.

CHC requires that each CHC hospital adopt and abide by this policy and mandates that each CHC hospital adhere to CHC polices and procedures pertaining to Charity Care Discount, Collection of Accounts, Discount and Payment Plans, and Financial Counseling Policies in compliance with applicable federal and state law.

Procedure:

1. Uniformity. Each CHC hospital shall adopt the Charity Care Discount, Collection of Accounts, Discount and Payment Plans, and Financial Counseling Policies substantially the same as the policies which are attached hereto as Exhibits 1-4. Any deviation from said policies must be approved by both the hospital's board of directors and CHC management prior to implementation.

2. Hospital Eligibility Systems. Each hospital shall set forth specific financial criteria and procedures to determine whether a patient is eligible for charity care. The system shall include income levels and means testing indexed to the federal poverty guidelines. Eligibility under the Charity Care Discount Policy shall include, at a minimum, all households earning less than 200% of the federal poverty limit.

CHC Community Hospital Corporation

POLICY & PROCEDURE

SPONSOR: General Counsel	**AREA:** Legal
SUPERCEDES: 7/1/11	**DESCRIPTION:** Charity Care
APPROVED: 6/01/12	**REFERENCE:** LAW004
EFFECTIVE: 6/01/12	**PAGE:** 2 of 18

3. Model Addendums. Each hospital shall adopt addendums (Attachment A) to its policies to incorporate into its hospital specific eligibility systems for charity care and discount schedules relevant to its service area demographics. Each hospital's addendum shall be consistent with these Model Addendums. All addendums must be approved by both the hospital's board of directors and CHC management prior to its implementation.

4. Model Documents. Each hospital shall develop an application and instructions for charity/financial assistance as well as financial assistance approval worksheet which documents shall be consistent with the attached model documents (Attachment B).

5. Annual Review. Each hospital shall implement mechanisms to evaluate the effectiveness of its charity care program and review income eligibility requirements on an annual basis. The purpose of this review shall be to assess the effectiveness of the hospital's charity care program and to determine whether the hospital is meeting the needs of the community while complying with federal and state law regarding charity care. Any changes to the eligibility requirements must be approved by both the hospital's board of directors and CHC management prior to implementation.

6. Charging Practices. Each year the hospital shall review its charging practices to ensure that they are consistent with state and federal requirements regarding allowable charges for those who qualify for financial assistance. In addition, the hospital, at its discretion, may extend a self-pay discount to uninsured patients who do not qualify for financial assistance.

7. Report of Community Benefits. Each hospital shall prepare a report of its community benefits plan once every three years per IRS requirements or more frequent as required by state law or regulation. The report shall include the amount of charity care provided on an annual basis. The report shall be filed with the appropriate State agency and made available to the public upon request. If required by State law or regulation a public statement regarding the report shall be posted in prominent areas of the hospital, including but not limited to the emergency waiting area and admissions office waiting area.

8. Patient Accounts. CHC hospitals shall annually review all current charges and maintain charges for services and procedures that are reasonably related to both the cost of the service and the needs of the community. CHC hospitals shall pursue patient accounts fairly and consistently in accordance with its collection of accounts policies.

9. Communication. CHC hospitals shall effectively communicate information regarding the availability of financial assistance to the community and the patients they serve. Each

CHC Community Hospital Corporation

POLICY & PROCEDURE

SPONSOR: General Counsel	**AREA:** Legal
SUPERCEDES: 7/1/11	**DESCRIPTION:** Charity Care
APPROVED: 6/01/12	**REFERENCE:** LAW004
EFFECTIVE: 6/01/12	**PAGE:** 3 of 18

hospital Charity Care Discount Policy must be available to the public. In addition to the prominent posting of a charity care notices in the admissions and emergency room areas, a copy of the Charity Care Discount Policy should be available to all patients on admission. A copy of the Collection of Accounts, Discount and Payment Plans, and Financial Counseling Policies shall be made available to the public upon request.

EXHIBIT 1

MODEL CHARITY CARE DISCOUNT POLICY

POLICY STATEMENT

The hospital shall contribute appropriate resources, advocacy and community support to promote the health status of the community, which it serves, within its economic ability to do so. Charity care will be provided to patients with a demonstrated inability to pay. The purpose of this policy is to establish criteria for determining if a patient's account qualifies for a charity care discount. The amount of charity care to be made available, as well as any other changes to this policy shall be assessed and determined by the hospital's Chief Executive Officer on an annual basis, and will adhere to state guidelines for non-profit facilities, if applicable. The amount of charity care as well as the other terms of this policy may be changed by the hospital's Chief Executive Officer, subject to the approval of Community Hospital Corporation.

PROCESS

1. Non-Discrimination. The hospital is a non-profit corporation offering a charity care program. The hospital will not discriminate on the basis of race, ancestry, religion, national origin, citizenship status, age, disability or gender in its consideration of a patient's qualification for charity care.

2. Patient Classification. The classification of a patient as being eligible for charity care shall occur at the time sufficient information has been obtained to verify the patient's inability to pay for needed medical services, and as soon as possible after the patient first presents for services or indicates an inability to pay for services.

3. Time of Qualification. Hospital personnel shall attempt to identify all cases that qualify as charity patients at the time of pre-registration or admission. Patients identified as possible charity care patients will be given an application and policy guidelines, together with directions on completing the paper work and any additional documentation needed to consider the application. The patient will also be given contact information for the appropriate personnel to whom they should return the application.

4. Other Payor Sources. Applicants must fully cooperate and comply with eligibility requirements for any other healthcare program(s) for which they may be qualified prior to their evaluation for charity care. Federal and/or State assistance may be available to those who meet qualifications. Before charity care is considered, all available avenues of assistance from third-party payors must be exhausted.

5. Medical Necessity. All services must be medically necessary in order to qualify for a charity care discount (e.g., elective services such as cosmetic surgery do not qualify for a charity designation). Eligible services will be based on those services for which Medicare provides coverage.

6. Income Verification. Patients or the responsible party must verify the income reported on the Financial Assistance Application in accordance with the Documentation Requirements set forth below.

    a. Required Documentation. Income verification must be obtained regarding each patient considered for charity care. Eligibility documentation must be maintained in the patient's financial file. The hospital may obtain, for each patient, one or more of the following documents in order to determine income and assets of the patient.

        i. IRS Form W-2;

        ii. Wage and earnings statement;

        iii. Paycheck remittance;

        iv. Individual tax returns

        v. Unemployment insurance;

        vi. Social Security award letter, or copy of Social Security check:

        vii. Telephone verification by employer of the patient's income;

        viii. Veterans Administration letter, or copy of VA check;

        ix. Physician disability statement listing term of disability and documentation or proof of three or more months with no income for the period of disability;

x. Bank accounts and records; or

xi. Other appropriate indicators of yearly, monthly, weekly or hourly income.

b. Participation in a Public Benefit Program. By the provision of documentation showing current participation in a public benefit program such as Medicaid, County Indigent Health Program, WIC, Children's Health Insurance Program, or other similar indigency-related programs. Proof of participation in any of the above programs indicates that the patient has been deemed Financially Indigent and therefore, is not required to provide his or her "Gross Monthly Income" on the Financial Assistance Application, or provide any of the income documentation verification listed in Section 6.

c. Documentation Unavailable. In cases where a patient is unable to provide documentation verifying income, the hospital may verify the patient's income by providing an explanation of why the patient is unable to provide documentation verifying income and:

i. Obtaining the Patient's Written Attestation. By having the patient or the responsible party sign the Financial Assistance Application attesting to the veracity of the income information provided; or

ii. Obtaining the Patient's Verbal Attestation. Through the written attestation of hospital personnel completing the Financial Assistance Application that the patient verbally verified the hospital's calculation of the income reported on the Financial Assistance Application.

d. *De minimis Accounts*. If the patient's account is of de minimis value, not to exceed $500.00, the hospital may verify the patient's income reported by the patient on the Financial Assistance Application by:

i. Obtaining the Patient's Written Attestation. Obtaining a Financial Assistance Application signed by the patient attesting to the veracity of the income information provided; and

ii. Documenting Efforts to Obtain Documentation. Documenting two attempts by the hospital to obtain documentation from the patient verifying income.

e. Verification Procedure. In determining a patient's total income, Hospital staff will determine an applicant's gross annual household income as well as the applicant's gross monthly household income from one or more sources of documentation (listed in 6. (a) above) the applicant provides. The applicant's gross annual household income will provide the basis for determining eligibility according to the process provided in the Financial Assistance Approval Worksheet. The hospital may also consider other financial assets and liabilities of the patient, as well as the patient's family income and the ability of the patient's family to pay. If a determination is made that a patient has the ability to pay the remainder of the bill, that determination does not preclude a re-assessment of the patient's ability to pay upon presentation of additional documentation.

f. Classification Pending Income Verification. During the verification process, while the hospital is collecting the information necessary to determine a patient's income, the patient may be treated as a private-pay patient in accordance with the hospital's policies. However, the hospital may classify the account as bad debt only after 150 days from the date of admission and only if the hospital has been unable, after following the document collection polices detained in section 16. below, to obtain the documentation necessary to verify patient's eligibility for charity care, except that if hospital receives proof that patient is eligible for participation in a public benefit program (as referenced in section 6(b) above), after 150 days from the date of admission have passed, the hospital may classify the account as charity at that point, even though 150 days from the date of admission have elapsed.

g. Information Falsification. Falsification of information may result in denial of the Financial Assistance Application. If, after a patient is granted financial assistance, the hospital finds material provision(s) of the Financial Assistance Application to be untrue, charity care status may be revoked and financial assistance may be withdrawn.

7. Administrative Approval. All charity care applications shall be forwarded to the appropriate personnel or designee for approval adhering to this policy. The Director of Patient Financial Services shall review and approve all charity care application files involving write-off amounts over $5,000 for accuracy of eligibility determination and write-off amount, as well as completeness of documentation required to verify income. Charity care application files are to be reviewed and approved per the hospital's signature authorization policy.

The Director of Patient Financial Services shall complete a final review and approval of all charity care applications, regardless of write-off amount, before final classification and write-off of account to charity.

8. Notification Process. The process of application review, approval or denial, and patient notification of decision shall not take more than thirty (30) days from the date that the application is received with all required information. All patients that request charity care shall receive a letter stating if the patient was approved or denied for a charity care designation, and if approved, the amount of charity care discount the patient will receive as well as conditions for the charity care.

9. Patient Account Adjustment. Once a favorable determination is made to provide charity care to the patient, an adjustment should be made to the patient's account accordingly. If an account is found to be with a collection agency subsequent to a patient's becoming eligible for charity care, the account will be recalled and all records on the patient's credit report will be adjusted for the accounts approved for a charity care discount.

10. Guidelines. Eligibility for free or discounted care shall be provided according to the attached addendums:

    a. Eligibility Guidelines.

    b. Approval Period.

    c. Remaining Charity Care Balances.

11. Automatic Qualification. The following categories of patients are deemed to have no annual household income and shall automatically qualify for charity care and receive a 100% discount on charges: patients who are deceased with no estate in probate and patients determined to be homeless. Documentation of "Yearly Income" on the Financial Assistance Application is not required for expired patients.

12. Denial of Services. Denial of future non-emergent services may also be considered for patients who refuse to cooperate and/or habitually access the acute care system for non-acute care episodes.

13. Publication of Policy. The hospital's Charity Care Discount Policy must be available to the public. In addition to the prominent posting of a charity care

notice in the admissions and emergency room area, a copy of the Charity Care Discount Policy should be disseminated to all patients who request it.

14. Approval Procedures. The hospital will complete a Financial Assistance Approval Worksheet (Attachment B) for each patient granted status as Financially Indigent or Medically Indigent. The Financial Assistance Approval Worksheet allows for the documentation of the administrative review and approval process utilized by the hospital to grant financial assistance.

15. Document Collection and Retention Procedures. The hospital will maintain documentation sufficient to identify each patient granted status as Financially Indigent or Medically Indigent, the patient's income, the method used to verify the patient's income, the amount owed by the patient, and the person who approved granting the patient status as Financially Indigent or Medically Indigent. At the time of patient registration, immediately after a patient is provided a charity care application as a potential candidate for charity care, Hospital staff will create a patient file with patient's first and last names and patient account number clearly labeled on the file. As soon as practicably possible, the following items should be placed in the file:

    a. completed charity care application;

    b. completed Financial Assistance Approval Worksheet, signed by the preparer as well as the reviewer authorizing the write-off eligibility and amount;

    c. documentation providing proof of household financial income information; and

    d. any other information to substantiate the write-off eligibility and amount if documentation does not suffice to verify income.

    Hospital staff will review files on an annual basis to ensure files related to accounts eligible for or written-off as charity are complete.

    If the patient has not provided all require documentation within ten (10) days of preadmission or admission, Hospital staff will contact patient to obtain missing documentation, and follow-up periodically thereafter until patient file is complete.

CHC Community Hospital Corporation

POLICY & PROCEDURE

SPONSOR: General Counsel	**AREA:** Legal
SUPERCEDES: 2/16/06	**DESCRIPTION:** Charity Care
APPROVED: 6/01/11	**REFERENCE:** LAW004
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16. Reservation of Rights. The hospital reserves the right to limit or deny financial assistance at its sole discretion.

17. Non-covered Services. The hospital reserves the right to designate certain services that are not subject to this Charity Care Policy.

18. No Effect on Other Hospital Policies. This Policy shall not alter or modify other Hospital policies regarding efforts to obtain payments from third-party payers, patient transfers, or emergency care.

CHC Community Hospital Corporation	POLICY & PROCEDURE
SPONSOR: General Counsel	**AREA:** Legal
SUPERCEDES: 2/16/06	**DESCRIPTION:** Charity Care
APPROVED: 6/01/11	**REFERENCE:** LAW004
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EXHIBIT 2

MODEL COLLECTIONS OF ACCOUNTS POLICY

POLICY STATEMENT

The hospital is committed to treating all patients equitably, with dignity, respect, and compassion. The hospital shall pursue its collection policy fairly and consistently in compliance with the Federal Fair Debt Collection Practice and state collection laws. All patients will be treated with dignity and respect in regards to collection activities. This policy shall apply to the hospital's collection process and to outside agencies performing collection activities on behalf of the hospital.

PROCESS

1. Financial Counseling and/or Payment Plans. The hospital will review patient's financial record prior to initiation of collection activities to determine whether a payment plan has already been arranged with the patient pursuant to financial counseling at admission or discharge. If the patient is uninsured and such an offer has not been made, the hospital shall present to the patient the option of financial counseling and work with patient to determine whether the patient is eligible for charity care under the Charity Care Discount Policy or establish a reasonable payment plan pursuant to the Discounts and Payment Arrangement Policy.

2. Staff Education. The hospital's billing and collection staff will be trained to administer this policy and provide assistance to the patient. Medicare and non-Medicare patients will be treated in a similar manner.

3. Timeliness. A bill shall be issued in a timely manner after discharge or death to the party responsible for the patient's financial obligations.

4. Future Services. The patient shall not be denied future emergency services at the hospital based on outstanding account balances.

5. Documentation of Collection Effort. The hospital shall document all collection efforts in the patient's financial record including:

   a. Subsequent billing records;

b. Collection letters

c. Correspondence communicating the availability of financial counseling to patients unable to meet their debt obligation;

d. Correspondence evidencing subsequent attempts at collection; or documentation on individual patient accounts

e. Logs or documentation on individual patient accounts of all telephone calls to patients; and

f. Logs or documentation on individual patient accounts of all personal contacts with patients.

6. Referral to Collection Agency.

a. The referral of an account to a collection agency shall be limited to situations where the patient has ignored the hospital's offer of financial counseling or has violated the payment plan established to address the individual needs of the patient. The Chief Financial Officer or designee must approve the referral of any account to a collection agency.

b. Prior to the engagement of any collection agency, the hospital shall ensure that a written agreement is in place. Such agreement shall require the agency to abide by the hospital's collection policy. Any agencies whom the Hospital has contracts with must be appropriately bonded and insured.

c. The hospital shall only refer patient account to collection agencies, that the hospital has a valid agreement in place.

d. Collection efforts must allow the patient appropriate time to dispute their obligation. Collection agency shall cease collection efforts while a patient's balance is in dispute. All disputed accounts shall undergo an appropriate investigation. Under no circumstances will a collection agency make a report to a credit agency without disclosing that the patient has disputed their obligation to the hospital.

e. Pursuant to the agreement, the hospital shall have the right to withdraw any account from the agency at any time and for any reason.

CHC Community Hospital Corporation

POLICY & PROCEDURE

SPONSOR: General Counsel	**AREA:** Legal
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7. Legal Action.

   a. The hospital recognizes its right to initiate legal action where there is evidence that the patient or responsible third party has income or assets to meet his or her obligation.

   b. If the hospital chooses to engage a law firm, the hospital shall enter into a written engagement agreement prior to referring any matter to the firm for collection.

   c. A lawsuit may be filed against a responsible party only in those situations where there is evidence that the responsible party has or will likely have in the future income or assets to meet his/her debt obligation.

   d. Prior to the filing of any lawsuit, the law firm shall send written notice to the responsible party of its intent to institute legal action to collect the account.

   e. The hospital's chief financial officer shall have final authority to approve any settlement of a lawsuit.

CHC Community Hospital Corporation

POLICY & PROCEDURE

SPONSOR: General Counsel	**AREA:** Legal
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EXHIBIT 3

MODEL DISCOUNT AND PAYMENT PLAN POLICY

POLICY STATEMENT

The hospital shall offer discounts, payment plans and/or loans to patients unable to pay their hospital charges in full. This policy shall apply to all persons receiving financial counseling at any point in the admission, discharge, or collections process. The hospital shall train its employees providing financial counseling to patients regarding the process for discounts and payment arrangements. Employees providing financial counseling to current and discharged patients will follow this Discount and Payment Plan Policy in conjunction with the Financial Counseling Policy to determine the appropriate action regarding a patient's payment arrangement.

PROCESS

1. Cash Discounts. Discounts may be offered to uninsured patients who are willing to either pay their balances in full or under a payment plan. Patients that are willing to pay by cash or credit card at the point of service will receive a pre-approved discount off of total charges. Unanticipated charges not quoted at time of service will also be billed to the patient with the pre-approved discount. Using financial counseling protocols the hospital will encourage payments on the patient's remaining balance within thirty days of discharge. If the patient is unable to pay the remaining balance within thirty days of discharge, the patient may enter into a payment plan, with no additional discount. Patients that cannot pay at time of service will follow the payment arrangements outlined in the Financial Counseling Policy.

2. Eligibility for Payment Plan. Patients participating in a payment plan will receive a discount based on the attached addendum. Patients who have already received a discount for cash or prompt payment shall not be eligible for additional discounts. The monthly payment shall be determined by dividing the total balance by the number of months in the plan as represented in the addendum. Patients wishing to establish payment plans for their total charges will be given the opportunity utilizing the attached addendum.

CHC Community Hospital Corporation

POLICY & PROCEDURE

SPONSOR: General Counsel	**AREA:** Legal
SUPERCEDES: 2/16/06	**DESCRIPTION:** Charity Care
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3. Payments. Patients shall pay the first payment upfront. Payments are due on an established schedule after the first of the month. If a patient fails to make two or more payments, at thirty (30) day intervals from the first payment date, the hospital has the option to terminate the payment plan and place the remaining balance of the patient's account in the collections process.

4. Notice to Patient. The hospital's billing office or patient access staff shall make available and offer the Discount and Payment Plan Policy and Financial Counseling Policy to patients during the registration process and/or during the collection/financial counseling process.

5. Loan Program. Patients unable to pay by cash or payment plan may be eligible for the hospital's Loan Program, if available.

CHC Community Hospital Corporation

POLICY & PROCEDURE

SPONSOR: General Counsel	**AREA:** Legal
SUPERCEDES: 2/16/06	**DESCRIPTION:** Charity Care
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EXHIBIT 4

MODEL FINANCIAL COUNSELING POLICY

POLICY STATEMENT

The hospital shall take appropriate measures to counsel all patients regarding the patient's financial obligation for scheduled procedures and/or inpatient admissions. The hospital shall make the earliest possible contact with patients to 1) provide financial counseling to patients at the time of admission; 2) identify and collect appropriate point of service co-payments and/or deductibles at the time of admission or prior to discharge; and 3) where applicable, enter into a contract for repayment of the patient's balance.

PROCESS

1. Scheduled Procedures/Scheduled Admissions. Patients scheduled in advance for procedures or admission will be given instructions to contact the financial counselor prior to admission. If the patient does not make contact prior to the scheduled procedures, the financial counselor will call the patient's residence to advise the patient of anticipated charges for the procedure or admission. The financial counselor shall further advise the patient of applicable discounts or payment options. If attempts to reach the patient at home are unsuccessful, then the financial counselor may contact the patient at work. If the patient is reached at work, the financial counselor should ask for permission to discuss the scheduled procedure or admission at that time or ask the patient to return the call at a more convenient time.

2. Admitted Patients. The financial counselor will visit the patient's room to discuss financial arrangements before the patient is discharged. If the patient is unable to discuss financial arrangements when the financial counselor visits the patient, then the financial counselor should notify the nurse's station and care management that they need to speak with the patient before discharge.

3. Emergency Room Patients. Patient access staff in the emergency room will serve as financial counselors for patients that are being discharged from the emergency room, and/or after being medically screened. The patient access staff will use the payment arrangements discussed in this policy to collect co-payment, deductibles, and estimated emergency room charges. Payment

plans for emergency room patients, will be made by collectors in the business office after final charges.

4. Financial Information. The hospital shall to the extent possible clearly present to each patient the anticipated charges expected to be incurred in connection with the admission and/or procedure. Admission documentation shall clearly indicate:

   a. The patient or responsible party shall be responsible for all charges incurred even though those charges are not known at time of admission.

5. Payment Arrangements. Patients shall be advised of the following:

   a. Eligibility for Charity Care. The financial counselor will determine whether the patient qualifies under the Charity Care Discount Policy for free or discounted care. Reasonable efforts shall be made to make such a determination prior to admission, however the hospital recognizes that not all patients will have sufficient documentation at the time of admission to verify their eligibility for charity care. Accordingly, discharged patients wishing to be considered for charity care may submit necessary documentation within ten (10) days of discharge.

   b. Point of Service Discounts. If the patient can pay cash at point of service, they will be offered a cash discount in accordance with the "Discount and Payment Plan Policy."

   c. Payment Plans. Patients needing additional time to repay their financial obligation may be eligible for a payment plan in accordance with the "Discount and Payment Plan Policy."

   d. Loan Program. Patients unable to repay their obligation under a payment plan may be eligible for a loan under the Loan Program, if available

6. Financial Agreement. After determining and documenting the patient's financial status, the financial counselor shall have the patient or responsible party enter into a contract for the patient, which incorporates the agreed payment arrangement. The contract shall be prepared on a pre-approved hospital form and signed by the patient or patient's legal representative as well as a third party witness. The contract and supporting documentation shall become a permanent part of the patient's financial record.

CHC Community Hospital Corporation

POLICY & PROCEDURE

SPONSOR: General Counsel	**AREA:** Legal
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7. Discharged Patients.

   a. Walk Up Patients: When a discharged patient presents in person to the business office or admitting department to discuss payment arrangements for billed charges, the financial counselor will work out the payment arrangements according to the "Discount and Payment Plan Policy."

   b. Telephone Inquiries. Telephone calls from patients wishing to make or discuss payments shall be forwarded to the business office where a financial counselor will discuss options with the patient.

Policy Attachments
Attachment A – Financial Assistance Eligibility Discount Guidelines
Attachment B – Application for Financial Assistance

Appendix I – Audited Financials

VHA Southwest Community Health Corporation and Subsidiaries

Auditor's Report and Consolidated Financial Statements

June 30, 2014 and 2013

BKD LLP
CPAs & Advisors

VHA Southwest Community Health Corporation and Subsidiaries

June 30, 2014 and 2013

Contents

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Independent Auditor's Report

Audit Committee
VHA Southwest Community Health
Corporation and Subsidiaries
Plano, Texas

We have audited the accompanying consolidated financial statements of VHA Southwest Community Health Corporation and Subsidiaries (CHC), which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of VHA Southwest Community Health Corporation and Subsidiaries as of June 30, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Consolidating Information

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

BKD, LLP

December 19, 2014

VHA Southwest Community Health Corporation and Subsidiaries

Consolidated Balance Sheets

June 30, 2014 and 2013

(In Thousands)

Assets

	2014	2013
Current Assets		
Cash and cash equivalents	$ 43,438	$ 39,058
Short-term investments	5,024	5,446
Assets limited as to use, current	1,572	2,241
Patient accounts receivable, net of allowance; 2014 – $22,794, 2013 – $25,602	55,548	42,516
Estimated amounts due from third-party payers	6,323	9,653
Supplies	8,487	7,857
Prepaid expenses and other	10,848	9,590
Excess insurance coverage receivable, current	451	641
Total current assets	131,691	117,002
Assets Limited As To Use		
Held by trustee, self-insurance	16,757	15,478
Held by trustee, under bond indenture agreements	22,189	21,625
Externally restricted by donors	153	172
	39,099	37,275
Less amount required to meet current obligations	1,572	2,241
	37,527	35,034
Other Investments	3,201	2,802
Property and Equipment, At Cost		
Land and land improvements	9,320	9,730
Buildings and leasehold improvements	256,138	250,418
Equipment	173,819	161,968
Construction in progress	8,238	3,637
	447,515	425,753
Less accumulated depreciation	262,111	244,414
	185,404	181,339
Other Assets		
Goodwill and other intangible assets	2,242	2,242
Deferred financing costs	3,353	4,685
Other assets	2,349	1,990
Excess insurance coverage receivable	3,990	3,314
	11,934	12,231
Total assets	$ 369,757	$ 348,408

See Notes to Consolidated Financial Statements

Liabilities and Net Assets

	2014	2013
Current Liabilities		
Current maturities of long-term debt	$ 12,320	$ 8,857
Accounts payable	26,903	17,516
Accrued expenses	32,797	26,564
Amounts due under UPL programs	1,461	2,020
Estimated self-insurance costs, current	1,572	2,241
Total current liabilities	75,053	57,198
Estimated Self-insurance Costs	14,139	12,097
Long-term Debt	155,774	157,252
Other Long-term Liabilities	1,131	1,204
Total liabilities	246,097	227,751
Net Assets		
CHC	122,583	119,017
Noncontrolling interest	826	1,372
Total unrestricted net assets	123,409	120,389
Temporarily restricted	251	268
Total net assets	123,660	120,657
Total liabilities and net assets	$ 369,757	$ 348,408

VHA Southwest Community Health Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

Years Ended June 30, 2014 and 2013

(In Thousands)

	2014	2013
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual allowances and discounts)	$ 389,895	$ 369,404
Provision for uncollectible accounts	36,585	40,001
Net patient service revenue less provisions for uncollectible accounts	353,310	329,403
Ad valorem tax revenue	6,525	6,443
Other	20,458	17,657
Total unrestricted revenues, gains and other support	380,293	353,503
Expenses and Losses		
Salaries and wages	157,044	145,201
Employee benefits	28,635	27,453
Purchased services and professional fees	63,475	57,647
Supplies, rent and other costs	100,881	86,751
Depreciation and amortization	19,237	19,174
Interest	7,705	9,010
Gain on disposal of property and equipment	(30)	(1,795)
Total expenses and losses	376,947	343,441
Operating Income	3,346	10,062
Other Income (Loss)		
Contributions received	2,535	2,519
Investment return	1,404	487
Loss on refinancing of debt	(4,903)	-
Other	3,233	1,068
Total other income	2,269	4,074
Excess of Revenues Over Expenses	$ 5,615	$ 14,136

VHA Southwest Community Health Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (Continued)

Years Ended June 30, 2014 and 2013

(In Thousands)

	2014	2013
Unrestricted Net Assets		
Excess of revenues over expenses	$ 5,615	$ 14,136
Contributions and grants for acquisition of property and equipment	280	703
Investment return, change in unrealized gains and losses on other than trading securities	(47)	(61)
Distributions to members	(2,822)	(1,472)
Distributions to noncontrolling interest	(215)	(205)
Change in ownership interest in joint venture	209	(397)
Increase in unrestricted net assets	3,020	12,704
Temporarily Restricted Net Assets		
Contributions received	10	4
Net assets released from restriction	(27)	-
Increase in temporarily restricted net assets	(17)	4
Change in Net Assets	3,003	12,708
Net Assets, Beginning of Year	120,657	107,949
Net Assets, End of Year	$ 123,660	$ 120,657

VHA Southwest Community Health Corporation and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended June 30, 2014 and 2013

(In Thousands)

	2014	2013
Operating Activities		
Change in net assets	$ 3,003	$ 12,708
Items not requiring (providing) cash		
Gain on disposal of property and equipment	(30)	(1,795)
Depreciation and amortization	19,237	19,245
Provision for uncollectible accounts	36,585	40,001
Loss on debt refinancing	4,903	1,380
Distributions to members and noncontrolling interest	3,037	1,677
Contributions and grants for acquisition of property and equipment	(280)	(703)
Proceeds from restricted contributions	(12)	(4)
Accrued professional and general liability claims	885	(32)
Contribution of net assets of CCCH	(381)	-
Net unrealized loss on investments	47	61
Changes in		
Patient accounts receivable, net	(48,979)	(43,816)
Estimated amounts due from and to third-party payers	3,661	(8,590)
Accounts payable and accrued expenses	9,458	334
Payable to UPL participants	(890)	(694)
Other assets and liabilities	1,188	25
Net cash provided by operating activities	31,432	19,797
Investing Activities		
Purchase of investments	(2,228)	(11,531)
Sales and maturities of investments	391	5,752
Purchase of property and equipment	(19,245)	(18,948)
Proceeds from sale of property and equipment	-	2,508
Net change in amounts due to affiliate	(117)	182
Net cash used in investing activities	(21,199)	(22,037)

VHA Southwest Community Health Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

Years Ended June 30, 2014 and 2013

(In Thousands)

	2014	2013
Financing Activities		
Distributions to members	$ (2,822)	$ (1,472)
Contributions and grants for acquisition of property and equipment	280	702
Proceeds from issuance of long-term debt	57,207	20,148
Payment of deferred financing costs	(984)	(370)
Payment of penalty related to debt refinancing	(2,815)	-
Distributions to noncontrolling interest	(215)	(205)
Proceeds from restricted contributions	11	4
Principal payments on long-term debt and capital lease obligations	(56,515)	(28,142)
Net cash used in financing activities	(5,853)	(9,335)
Increase (Decrease) in Cash and Cash Equivalents	4,380	(11,575)
Cash and Cash Equivalents, Beginning of Year	39,058	50,633
Cash and Cash Equivalents, End of Year	$ 43,438	$ 39,058
Supplemental Cash Flows Information		
Interest paid, net of amounts capitalized	$ 7,608	$ 9,007
Capital lease obligations incurred for property and equipment	$ 1,293	$ 343
Property and equipment included in accounts payable	$ 1,629	$ 332

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

VHA Southwest Community Health Corporation and Subsidiaries (CHC) is a Texas non-profit corporation organized to acquire, lease, manage and operate health care facilities. Current facilities owned or operated by CHC are in Texas, New Mexico, North Carolina and Kentucky. CHC's mission is to preserve community-based health care by assisting communities to cope with the changing dynamics in the health care industry. CHC primarily earns revenues by providing inpatient, outpatient and emergency services in its hospitals. CHC also earns revenue from the provision of management and consulting services to health care entities.

All dollar amounts within these footnotes are rounded to the nearest thousand.

Principles of Consolidation

The accompanying consolidated financial statements of CHC include the accounts of CHC and its wholly owned or wholly controlled subsidiaries. All material intercompany transactions have been eliminated in consolidation. Entities included in the continuing operations of the accompanying consolidated financial statements are as follows:

Entity	Description	Tax Status	Location
Southwest Community Hospital (SCH)	Management company	Tax-exempt	Plano, Texas
Baptist Hospitals of Southeast Texas (BHSET)	620-bed acute care hospital (2 campuses)	Tax-exempt	Beaumont and Orange, Texas
Artesia General Hospital (AGH)	49-bed leased acute care hospital	Tax-exempt	Artesia, New Mexico
St. Mark's Medical Center (SMMC)	44-bed acute care hospital	Tax-exempt	La Grange, Texas
Yoakum Community Hospital (YCH)	25-bed leased critical access hospital	Tax-exempt	Yoakum, Texas
Community LTACH, LLC	Holding company	LLC[(1)]	Plano, Texas
CHC Community Care, LLC (CCC)	Management company	LLC[(1)]	Plano, Texas
ContinueCare Hospital of Tyler (CCHT)	51-bed long-term acute care hospital	Tax-exempt	Tyler, Texas
Community Health Assurance, SPC, Ltd. (CHA)	Captive insurance company	Tax-exempt	Cayman Islands
Community Hospital Consulting (Consulting)	Hospital management and consulting	Taxable	Plano, Texas
ContinueCare Hospital at Baptist Health Corbin (CCBH)	32-bed long-term acute care hospital	Tax-exempt	Corbin, Kentucky
ContinueCare Hospital at Hendrick Medical Center (CCHH)	19-bed long-term acute care hospital	Tax-exempt	Abilene, Texas
Carolinas ContinueCare Hospital, Inc. (CCCH)	28-bed long-term acute care hospital	Tax-exempt	Kings Mountain, North Carolina
ContinueCare Hospital of Midland, Inc. (CCHM)	29-bed long-term acute care hospital	Tax-exempt	Midland, Texas

[(1)] The LLCs do not pay taxes due to their income being passed through to their tax-exempt owners

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

BHSET

BHSET operates two hospitals. Baptist Beaumont Hospital is licensed as a 502-bed acute care hospital and is located in Beaumont, Texas. Baptist Orange Hospital is licensed for 112 acute care beds and is located in Orange, Texas. BHSET also operates Baptist Physicians' Network (BPN), which earns revenues by providing physician services to patients in the hospitals' service areas.

BHSET is the majority owner of Baptist/USP Surgery Centers, L.L.C. (USP). BHSET owns 50.10% of USP, with the remaining interest owned by an unrelated entity. USP holds an ownership interest of 27.84% in Baptist Surgical Affiliates, Ltd. (BSA), a freestanding ambulatory surgical center located in Beaumont, Texas. BSA primarily earns revenue through the provision of outpatient surgical services. By virtue of its controlling ownership, the consolidated financial statements of USP include the financial statements of BSA. BSA is also managed by USP under an agreement that continues in effect until either party terminates the agreement.

BHSET, Southwest Community Hospital, Inc. (SCH) and Memorial Hermann Hospital System (MHHS) entered into an agreement on October 1, 2000, that transferred BHSET's corporate membership from MHHS to SCH. MHHS exchanged amounts due under two revolving credit notes for Class B membership rights in BHSET. The sole corporate member of SCH is CHC.

Under MHHS's Class B member rights, MHHS has the right to appoint one individual to serve on the board of directors of SCH. Under the terms of the Class B Membership Agreement (Agreement), BHSET will pay MHHS a return of its prior contributions up to $20,976. Any amounts repaid to MHHS would be limited to funds in excess of that necessary for BHSET to maintain a minimum of 150% of maximum annual debt service coverage, a current ratio of 1.5 to 1 and 21 days cash on hand, measured as of the last day of the fiscal year and the last day of the six-month period thereafter, before any payments under the Agreement are payable. No amounts were paid in 2014 or 2013.

SCH and BHSET executed a 25-year management agreement with SCH appointing CHC to provide certain financial, technical and managerial support services to BHSET. On July 1, 2010, SCH and BHSET modified the management agreement changing the initial term to five years with the option to renew annually.

AGH

AGH is a not-for-profit organization whose mission and principal activities are to provide health care services to the residents of Eddy County in New Mexico. AGH began hospital operations in 1939, and has been earning revenues from the provision of inpatient, outpatient and emergency care services to residents in its geographic area since that time.

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

SMMC

SMMC is a not-for-profit organization whose mission and principal activities are to provide health care services to the residents of Fayette and Lee Counties in Texas. SMMC was organized in 2002 to plan and obtain financing to construct and operate a new hospital facility in La Grange, Texas. This financing was completed in 2004 and construction of the new hospital was completed during July 2005. SMMC began hospital operations on July 11, 2005, and has been earning revenues from the provision of inpatient, outpatient and emergency care services to residents in its geographic area since that time.

On January 1, 2011, CHC became the sole member of SMMC through a master agreement dated December 17, 2010. The master agreement was amended on January 1, 2014. Pursuant to the amendment on January 1, 2014, and every year thereafter, the SMMC and CHC have the option to unwind CHC's membership in the SMMC. Unless the SMMC and CHC otherwise agree, the master agreement will terminate and the corporate relationship will unwind on December 31, 2018.

YCH

YCH is a not-for-profit organization whose mission and principal activities are to provide health care services to the residents of DeWitt and Lavaca Counties in Texas. YCH began hospital operations in April 1949, and has been earning revenues from the provision of inpatient, outpatient and emergency care services to residents in its geographic area since that time.

CCHT

CCHT is a long-term acute care hospital incorporated in 2004 and located in Tyler, Texas. CCHT was developed in conjunction with Trinity Mother Frances Health System (TMFHS), which operates an integrated health care system in Tyler, Texas.

TMFHS is a Class B Member of CCC. Under its Class B member agreement, cash distributions from CCHT will be paid 80% to TMFHS and 20% to CHC.

CCBH

CCBH is a long-term acute care hospital located in Corbin, Kentucky. Effective December 1, 2013, Baptist Community Health Services (BCHS) transferred the entirety of its membership interest in CCBH to CCC in exchange for Class G membership in CCC. There were no assets acquired or liabilities assumed by CCC and no consideration was or will be transferred.

BCHS provided CCBH a $1,000,000 line of credit to provide working capital for CCBH. The Class G membership rights require that cash distributions from CCBH be used to first pay off any amounts outstanding under the line of credit. Subsequent to these payments, cash distributions from CCBH will be paid 60% to BCHS and 40% to CHC.

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

CCHH

CCCH is a long-term acute care hospital located in Abilene, Texas. Effective December 31, 2013, Hendrick Medical Center (HMS) transferred the entirety of its membership interest in CCHH to CCC in exchange for Class H membership in CCC. There were no assets acquired or liabilities assumed by CCC and no consideration was or will be transferred.

HMC provided CCHH a $2,000,000 line of credit to provide working capital for CCHH. The Class H membership rights require that cash distributions from CCHH be used to first pay off any amounts outstanding under the line of credit. Subsequent to these payments, cash distributions from CCBH will be paid 80% to HMC and 20% to CHC.

CCCH

CCCH is a long-term acute care hospital located in Kings Mountain, North Carolina. Effective March 1, 2014, Charlotte-Mecklenburg Hospital Authority d/b/a Carolinas Healthcare System (CHCS) transferred the entirety of its membership interest in CCCH to CCC in exchange for Class B membership in CCC. CCC acquired assets with estimated fair value in excess of liabilities assumed and recognized an inherent contribution of $381. This amount is included in contributions received in the consolidated statement of operations and changes in net assets for the year ended June 30, 2014. No consideration was or will be transferred by CCC.

HMC provided CCHH a $4,000,000 line of credit to provide working capital for CCCH. The Class B membership rights require that cash distributions from CCCH be used to first pay off any amounts outstanding under the line of credit. Subsequent to these payments, cash distributions from CCCH will be paid 80% to HMC and 20% to CHC.

CCHM

CCHM is a long-term acute care hospital located in Midland, Texas. CCHM was developed in conjunction with Midland County Hospital District (MCHD), which operates an integrated health system in Midland, Texas.

MCHD is a Class F member of CCC. MCHD provided CCHM a $2,000,000 line of credit to provide working capital for CCHM. The Class F membership rights require that cash distributions from CCHM be used to first pay off any amounts outstanding under the line of credit. Subsequent to these payments, cash distributions from CCHM will be paid 80% to MCHD and 20% to CHC.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Noncontrolling Interest

Noncontrolling interest represents the 49.9% of interest in USP that BHSET does not own as well as the portion of BSA not owned by USP. Losses attributable to the noncontrolling interest will be allocated to the noncontrolling interest even if the carrying amount of the noncontrolling interest is reduced below zero.

Changes in consolidated unrestricted net assets attributable to the controlling financial interest of CHC and the noncontrolling interest are shown below:

	Total	Controlling Interest	Noncontrolling Interest
Balance, July 1, 2012	$ 107,685	$ 106,884	$ 801
Excess of revenues over expenses	14,136	13,360	776
Contributions and grants for acquisition of property and equipment	703	703	-
Investment return, change in unrealized gains and losses on other than trading securities	(61)	(61)	-
Net assets released from restriction	-	-	-
Distributions to members	(1,472)	(1,472)	-
Distributions to noncontrolling interest	(205)	-	(205)
Change in ownership of joint venture	(397)	(397)	-
Increase in unrestricted net assets	12,704	12,133	571
Balance, June 30, 2013	120,389	119,017	1,372
Excess (deficiency) of revenues over expenses	5,615	5,946	(331)
Contributions and grants for acquisition of property and equipment	280	280	-
Investment return, change in unrealized gains and losses on other than trading securities	(47)	(47)	-
Net assets released from restriction	-	-	-
Distributions to members	(2,822)	(2,822)	-
Distributions to noncontrolling interest	(215)	-	(215)
Change in ownership of joint venture	209	209	-
Increase in unrestricted net assets	3,020	3,566	(546)
Balance, June 30, 2014	$ 123,409	$ 122,583	$ 826

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Cash Equivalents

CHC considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At June 30, 2014 and 2013, cash equivalents consisted primarily of money market accounts with brokers.

At June 30, 2014, CHC's cash accounts exceeded federally insured limits by approximately $44,525,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. The investment in equity investee is reported on the equity method of accounting. Investments in insurance annuities are valued at the amount that can be received at the balance sheet date, which is the cash surrender value adjusted for other amounts that are probable at settlement. CHC estimates the fair value of investments that do not have a readily determinable fair value and meet certain other criteria using the net asset value of the investments as a practical expedient. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value.

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. Investment return that is initially restricted by donor stipulation, and for which the restriction will be satisfied in the same year, is included in unrestricted net assets. Other investment return is reflected in the accompanying consolidated statements of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Assets Limited As To Use

Assets limited as to use include: (1) assets held by trustees under bond indenture agreements, (2) assets externally restricted by donors and (3) assets held by trustees under a self-insurance trust arrangement. Amounts required to meet current liabilities are included in current assets.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Patient Accounts Receivable

Patient accounts receivable is reported at net realizable amounts. In evaluating the collectibility of accounts receivable, CHC analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, CHC analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), CHC records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates or the discounted rates as provided by CHC's internal policy and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

CHC's allowance for doubtful accounts for self-pay patients decreased from 81% of self-pay accounts receivable at June 30, 2013 to 78% of self-pay accounts receivable at June 30, 2014. The decrease in the allowance for doubtful accounts is the result of trends experienced in the collection of amounts from self-pay patients during fiscal year 2014.

Ad Valorem Taxes

While CHC is not able to levy property taxes, it does receive tax revenues from its relationships with the hospital district at AGH. Property tax revenues are recognized in the period for which they are assessed.

Supplies

CHC states supply inventories at the lower of cost, determined using the first-in, first-out method or market.

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase capacities or extend useful lives are capitalized. Depreciation and amortization of property and equipment totaled $17,869 and $17,560, respectively, for the years ended June 30, 2014 and 2013.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and leasehold improvements	5 – 40 years
Equipment	3 – 10 years

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Long-lived Asset Impairment

CHC evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2014 and 2013.

Assets Held for Sale

Assets are classified as held for sale when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. During the year ended June 30, 2013, BHSET sold certain real estate to a third-party that was classified as held for sale. A gain on the disposal of the property of approximately $779,000 was recognized and is included as a component of gain on disposal of property and equipment in the accompanying consolidated statements of operations and changes in net assets.

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Goodwill

Goodwill represents the excess aggregate purchase price, including assumed liabilities, over the fair value of the net tangible and specifically identifiable intangible assets acquired in a business combination. Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the accompanying consolidated financial statements.

No goodwill impairment was recognized during the years ended June 30, 2014 and 2013.

Physician Guarantees

In an effort to recruit new physicians to its service areas, CHC has entered into various agreements with physicians guaranteeing certain levels of income for the first 12 – 24 months that the physician operates in the service area. These agreements typically require that the physician operate in the service area for up to three years after the guarantee period. In the event that CHC has made payments to the physician under these income guarantee agreements and the physician does not fulfill his or her obligation to practice in the service area for the term specified in the agreement, CHC can demand that the physician return all or a portion of the payments made under the agreement.

Amounts advanced to physicians, net of accumulated amortization and allowances for uncollectibility were approximately $2,026 and $1,869 at June 30, 2014 and 2013, respectively, and are included in other current and long-term assets in the accompanying consolidated balance sheets.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method which approximates the effective interest method. Amortization of deferred financing costs totaled $1,368 and $1,614, respectively, for the years ended June 30, 2014 and 2013.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by CHC has been limited by donors to a specific time period or purpose.

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Net Patient Service Revenue

CHC's hospital facilities have agreements with third-party payers, including government programs and managed care plans, that provide for payments at amounts different from their established rates. Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

CHC's hospital facilities provide care without charge or at amounts less than their established rates to patients meeting certain criteria under their charity care policies. Because CHC's hospital facilities do not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Contributions

Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received. Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires (*i.e.*, when a time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets.

Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Professional Liability Claims

CHC recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 5*.

Workers' Compensation

CHC is principally self-insured for workers' compensation claims. Claims are expensed as they are incurred, including an estimate for claims incurred but not reported. Amounts needed to pay claims are funded through operations.

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Employee Health Insurance

CHC maintains a self-insured health care plan covering substantially all full-time employees. Contributions are made to the administrator of the plan as health care claims are paid, while expenses are recorded as incurred. An estimated liability for incurred but not reported and unpaid claims has been recorded in accrued expenses for these employees' health benefits.

Income Taxes

CHC and substantially all affiliates have been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the entities are subject to federal income tax on any unrelated business taxable income. There was no material unrelated business income tax due in 2014 and 2013.

CHC and its affiliates file tax returns in the U.S. federal jurisdiction. With a few exceptions, those entities are no longer subject to U.S. federal examinations for years prior to 2011.

Excess of Revenues over Expenses

The accompanying consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on other than trading securities, distributions to noncontrolling interest, contributions and grants of long-lived assets (including assets acquired using contributions and grants which, by donor or other restrictions, were to be used for the purpose of acquiring or reimbursement for such assets) and change in ownership interest in joint venture.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payments under both programs are contingent on CHC's hospitals continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

CHC recognizes revenue under the grant accounting model using the cliff recognition approach. Under this approach, revenue is recognized once meaningful use status has been met for the full reporting period.

In 2014 and 2013, CHC recorded revenue of $3,000 and $5,481, respectively, which is included in other revenue in the accompanying consolidated statements of operations and changes in net assets.

Reclassifications

Certain reclassifications have been made to the 2013 consolidated financial statements to conform to the 2014 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Net Patient Service Revenue

CHC recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, CHC recognizes revenue on the basis of its discounted standard rates for services provided. On the basis of historical experience, a significant portion of CHC's uninsured patients will be unable or unwilling to pay for the services provided. Thus, CHC records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented in the accompanying consolidated statements of operations and changes in net assets as a component of net patient service revenue.

CHC has agreements with third-party payers, including government programs and managed care plans that provide for payments to CHC at amounts different from its established rates. Payment arrangements for government programs include the following:

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. CHC is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by CHC and audits thereof by the Medicare administrative contractor.

- **Medicaid** – Inpatient services are paid based on a prospective payment system. Outpatient services are reimbursed under a mixture of a fee schedule and cost reimbursement methodology. CHC is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by CHC and audits thereof by the Medicaid administrative contractor.

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. Settlements under reimbursement agreements with Medicare and Medicaid programs are estimated and recorded in the period the related services are rendered and are adjusted in future periods as adjustments become known or as the service years are no longer subject to audit, review or investigation. Annual cost reports required under the Medicare and Medicaid programs are subject to routine audits, which may result in adjustments to the amounts ultimately determined to be due to CHC under the reimbursement programs. These audits often require several years to reach their final determination of amounts earned under the programs. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

CHC has also entered into payment agreements with certain managed care plans, including commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to CHC under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended June 30, 2014 and 2013, was approximately:

	2014	2013
Medicare	43%	44%
Medicaid	12%	10%
Other third-party payers	40%	41%
Patients	5%	5%
	100%	100%

CHC participates in CMS approved private Medicaid supplemental payment (UPL) programs. CHC facilities also have affiliation agreements with third-party hospitals to provide free hospital and physician care to qualifying indigent residents of the counties in Texas in which the hospitals operate. The UPL payments are contingent on the county or hospital district making an Inter-Governmental Transfer (IGT) to the state Medicaid program. The Hospital's participation in the UPL program was replaced by funding received through the Medicaid section 1115(a) demonstration described below.

On December 12, 2011, the United States Department of Health and Human Services approved a new Medicaid section 1115(a) demonstration entitled "Texas Health Transformation and Quality Improvement Program" (Waiver). The Waiver has expanded existing Medicaid managed care programs and established two funding pools that are designed to assist providers with uncompensated care costs and promote health system transformation. The demonstration is effective from December 31, 2011 to September 20, 2016.

CHC recognized revenue from the UPL and Waiver of approximately $14,407 and $4,977, respectively, in connection with these programs in 2014 and 2013, which is reflected as a component of net patient service revenue in the accompanying consolidated statements of operations and changes in net assets. Waiver funding is subject to recoupment based on future audits of the data used as basis for the funding and CHC has recorded a reserve reflective of this risk. The revenue recognized from the Waiver in the current year is not necessarily representative of revenue CHC will recognize in future years.

CHC also participates in the Texas Medicaid Disproportionate Share (Dispro) hospital program. Payments related to this program are based on the volume of Medicaid and indigent patients. CHC recognized as a component of net patient service revenue approximately $9,344 and $7,799 during 2014 and 2013, respectively, related to participation in the Dispro program.

The Texas Health and Human Services Commission is expanding state Medicaid managed care programs and is covering a number of beneficiaries previously covered under traditional Medicaid arrangements into these managed care plans. CHC generally expects payments under the managed care plans to be equivalent to payments under the traditional plan. However, this outcome is contingent on CHC continuing to be able to negotiate appropriate rates with these managed care plan carriers.

Note 3: Concentration of Credit Risk

CHC's hospital facilities grant credit without collateral to their patients, most of whom are residents living near the hospital facilities and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at June 30, 2014 and 2013, is as follows:

	2014	2013
Medicare	39%	37%
Medicaid	8%	5%
Other third-party payers	7%	6%
Managed care (HMO/PPO)	32%	36%
Patients	14%	16%
	100%	100%

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Note 4: Investments and Investment Return

Assets Limited As To Use

Assets limited as to use at June 30 include the following (in thousands):

	2014	2013
Held by trustee, self-insurance		
Cash	$ 3,168	$ 3,319
Equity securities	-	1,425
Bond funds	8,969	5,012
U.S. Treasury obligations	-	1,235
Insurance annuities	4,620	4,487
	$ 16,757	$ 15,478
Held by trustee, under bond indenture agreements		
Cash	$ 2,729	$ 2,489
U.S. Treasury obligations	787	1,031
Money market funds	18,673	18,105
	$ 22,189	$ 21,625
Externally restricted by donors		
Cash	$ 147	$ 166
Corporate stocks	6	6
	$ 153	$ 172

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Other Investments

Other investments at June 30 include (in thousands):

	2014	2013
Certificates of deposit	$ 1,311	$ 2,251
Cash	1,548	1,589
Equity securities	3,303	1,715
Corporate bonds	230	468
U.S. Government securities	749	1,235
Mutual funds	720	638
Insurance annuities	364	352
	8,225	8,248
Less short-term investments	5,024	5,446
Long-term investments	$ 3,201	$ 2,802

Total investment return is comprised of the following (in thousands):

	2014	2013
Interest and dividend income	$ 1,387	$ 487
Unrealized gains (losses) on investments, net	(47)	(61)
	$ 1,340	$ 426

Total investment return is reflected in the accompanying consolidated statements of operations and changes in net assets as follows (in thousands):

	2014	2013
Unrestricted net assets		
Other nonoperating income	$ 1,404	$ 487
Investment return, change in unrealized gains and losses on other than trading securities	(47)	(61)
	$ 1,357	$ 426

VHA Southwest Community Health Corporation and Subsidiaries

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Bond Funds

The fair value of the bond funds have been estimated using the net asset value per share of the investments and at June 30, 2014 and 2013, totaled approximately $8,969 and $5,012, respectively. The bond funds are open-ended mutual funds with the objective to achieve, through individual portfolios, an above average rate of total return by investing primarily in fixed income securities. There are no additional commitments to the remaining funds. The funds may be redeemed weekly at a price based upon net asset value per share as of the close of business on the preceding Thursday.

Note 5: Risk Management

Employee Health Care Insurance and Workers' Compensation

CHC is self-insured for most employee health care insurance and workers' compensation claims. An estimated provision is recorded for self-insured claims at June 30, 2014 and 2013, and includes an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

The liability for employee health as of June 30, 2014 and 2013, was estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. The liability for workers' compensation claims as of June 30, 2014 and 2013, was estimated by professional insurance consultants based on past experience as well as the nature of each claim or incident and relevant trend factors. The estimated losses are discounted at a rate of 3.0% for both 2014 and 2013.

It is reasonably possible that these estimates could change by a material amount in the near term.

Estimated liabilities for these programs recorded as part of accrued expenses at June 30 were as follows (in thousands):

	2014	2013
Employee health care insurance	$ 2,112	$ 1,626
Workers' compensation insurance	821	835
	$ 2,933	$ 2,461

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Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Professional and General Liability Claims

CHC provides for substantially all professional and general liability risk through its wholly owned captive insurance provider, CHA. CHC purchases commercial insurance coverage for amounts in excess of the coverage provided by CHA for certain facilities.

BHSET began participating in CHA on November 15, 2002. Prior to this date, BHSET purchased coverage under a claims-made professional liability policy.

Prior to 2008, certain CHC hospitals purchased medical malpractice insurance under claims-made policies on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon these hospitals' claims experience, no such accrual is recorded for the claims prior to 2008.

CHC has retained professional insurance actuarial consultants to assist with determining the amounts to be deposited with CHA as reserves and the estimated CHA liability. Claims have been discounted at a rate of 2.5% for both 2014 and 2013. There are many factors that are used in determining the estimates, including the amount and timing of historical payments, severity of individual cases, anticipated volume of services provided and discount rates for future cash flows. Ultimate actual payments for professional liability and malpractice risks may not become known for several years after incurrence. Any factors changing the underlying data used in determining these estimates could result in adjustments to the liability.

Amounts recorded for professional and general liability claims at June 30, 2014 and 2013, were $15,711 and $14,338, respectively. The estimated current and long-term portions of this liability have been included in professional and general liability claims in the accompanying consolidated balance sheets. In addition, CHC has recorded approximately $4,441 and $3,955, respectively, of excess insurance coverage receivables in the accompanying consolidated balance sheets as of June 30, 2014 and 2013.

It is reasonably possible that these estimates could change by a material amount in the near term.

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Note 6: Long-term Debt

Long-term debt at June 30 consists of the following (in thousands):

	2014	2013
Amended Deed of Trust Note (A)	$ 77,912	$ 81,658
HUD 241 Loan (B)	-	47,280
223(a)(7) loan (C)	49,854	-
Mortgage Note Payable (D)	18,523	19,393
Capital lease obligation – related party (E)	8,116	8,659
Capital lease obligations (F)	4,092	3,977
VHA note payable (G)	172	890
Note payable – related party (see *Note 11*)	1,776	1,315
Notes payable (H)	7,414	2,706
Other notes payable	235	231
	168,094	166,109
Less current maturities	12,320	8,857
	$ 155,774	$ 157,252

(A) On October 5, 2010, BHSET entered into the Amended Deed of Trust Note. The Amended Deed of Trust Note is a $91,000 obligation that will be repaid in monthly installments of $602 through January 2029 at an interest rate of 4.35%. The proceeds of this debt issue and existing debt service reserve funds were used to repay the then outstanding FHA-insured Mortgage Revenue Bonds (Series 2001 Bonds). The FHA insurance policy for the Series 2001 Bonds remains in effect. The Amended Deed of Trust Note is secured by substantially all of BHSET's assets and revenues.

(B) On October 18, 2007, BHSET entered a $51,320 FHA-insured Mortgage Note Payable (HUD 241 Loan) to fund various expansion projects and repairs required due to Hurricane Rita. On October 17, 2013, BHSET repaid the HUD 241 loan with the proceeds of a new loan insured by HUD under Section 223(a)(7) (223(a)(7) loan) as described in (H) below.

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(C) The 223(a)(7) loan, in the amount of $50,915 bears interest at the rate of 4.25% and will be repaid in monthly installments of $311 through March 2034. The 223(a)(7) loan is secured by a subordinate lien on substantially all of BHSET's assets. Under the terms of the HUD-insured loan, BHSET is subject to various covenants, including limitations on the distribution of Hospital assets, incurrence of new debt and investments in joint ventures.

This prepayment of the HUD 241 Loan resulted in a loss on early retirement of debt of $4,903, primarily related to the write-off of unamortized issuance costs.

(D) Due September 1, 2030; payable in monthly installments of $120 monthly, including interest at an annual rate of 3.03% to Lancaster Pollard Mortgage Company.

The Note is secured by the revenues of SMMC and a partial guarantee by the Federal Housing Administration (FHA) under Section 242 of the National Housing Act and funds held in trust. The FHA guarantee was transferred to Lancaster Pollard Mortgage Company upon defeasance of a Series 2004 Revenue Bonds on October 1, 2013.

(E) Capital lease obligation to a related party (see *Note 11*), bearing interest at 6.25% with monthly principal payments through 2024; collateralized by real estate.

(F) Capital lease obligations, bearing interest at 4.25% – 6.05%, with monthly principal payments through 2019; collateralized by real estate and equipment.

(G) Note payable to VHA, Inc., bearing interest at LIBOR plus 1.0% (1.20% at June 30, 2014), with principal and interest due through September 2014.

(H) Various notes payable bearing interest at rates generally ranging from 3.25% – 8.0%, with principal payments due through 2018; secured by equipment

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Property and equipment under capital leases at June 30, 2014 and 2013, were as follows (in thousands):

	2014	2013
Buildings and equipment	$ 17,097	$ 17,054
Less accumulated depreciation	7,010	6,602
	$ 10,087	$ 10,452

Aggregate annual maturities and sinking fund requirements of long-term debt and payments on capital lease obligations at June 30, 2014, are as follows (in thousands):

	Long-term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2015	$ 9,834	$ 3,177
2016	7,638	2,684
2017	10,640	1,415
2018	8,021	1,234
2019	8,592	1,178
Thereafter	111,161	5,697
	$ 155,886	15,385
Less amount representing interest		3,177
Present value of future minimum lease payments		$ 12,208

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Note 7: Charity Care

In support of its mission, CHC and its hospital facilities voluntarily provide free care to patients who lack financial resources and are deemed to be medically indigent. Because CHC does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, CHC and its hospital facilities provide services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided.

The costs of charity care provided under CHC and its hospital facilities' charity care policies were approximately $6,018 and $6,002, respectively. The cost of providing charity care is estimated by applying the ratio of cost to gross charges to gross uncompensated care.

In addition to uncompensated charges, the CHC hospital facilities also commit significant time and resources to endeavors and critical services, which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screening and assessments, prenatal education and care, hospice programs, community educational services and various support groups.

Note 8: Functional Expenses

CHC provides health care services primarily to residents within its geographic area. Expenses related to providing these services at June 30 are as follows (in thousands):

	2014	2013
Health care services	$ 274,745	$ 254,881
General and administrative	102,202	88,560
	$ 376,947	$ 343,441

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Note 9: Operating Leases

CHC leases various equipment and facilities under operating leases expiring at various dates through 2027. Total rental expense was approximately $9,702 and $7,198 in 2014 and 2013, respectively, for all operating leases. CHC also leases space to physicians and other entities in medical office buildings. Total rental income was approximately $6,715 and $2,449 in 2014 and 2013, respectively, for all leased spaces. Future minimum lease payments and lease receipts under operating leases at June 30, 2014, that have initial or remaining lease terms in excess of one-year are as follows (in thousands):

	Future Obligations	Future Lease Receipts
2015	$ 12,075	$ 6,749
2016	6,834	1,726
2017	6,079	899
2018	4,308	558
2019	3,256	226
Thereafter	7,541	-
Future minimum lease payments	$ 40,093	$ 10,158

Note 10: Retirement Plan

CHC sponsors a defined contribution retirement plan covering substantially all full and part-time employees. The board of directors annually determines the amount, if any, of CHC's contributions to the plan. Retirement expense for the defined contribution plan was approximately $2,808 and $2,567 for 2014 and 2013, respectively.

Note 11: Related Party Transactions

A former board member of CHC, whose board service ended in September 2012, is also the chief executive officer of TMFHS, a partial owner of CCHT. Distributions to TMFHS or its related entities from CCHT were approximately $2,824 and $1,837 in 2014 and 2013, respectively. CCHT also made payments for its facility lease to TMFHS for $1,149 and $987 for June 30, 2014 and 2013, respectively.

BHSET leases a medical office building from BHST-POB I Ltd. (Partnership), a limited liability company that owns and leases a medical office building in which BHSET has a 33% interest. The lease between the Partnership and BHSET is accounted for as a capital lease by BHSET (see *Note 6*). Total lease payments made to the Partnership were approximately $1,068 for both years ended June 30, 2014 and 2013. The balance due under the capital lease was approximately $8,116 and $8,659 at June 30, 2014 and 2013, respectively.

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

SMMC and St. Mark's Medical Center Foundation (Foundation) are related parties that are not financially interrelated organizations. SMMC authorizes the Foundation to solicit contributions on its behalf. In the absence of donor restrictions, the Foundation has discretionary control over the amounts and timing of its distributions to SMMC.

On August 6, 2013, SMMC executed a line of credit with the Foundation with a maximum amount of $1,200. The note bears interest at 2.75% per annum and was payable on or before December 15, 2017, together with interest on the unpaid principal balance. The note payable balance at June 30, 2014 and 2013, was $1,200 and $1,000, respectively, and is included in long-term debt in the accompanying consolidated balance sheets (see *Note 6*).

On December 15, 2009, SMMC executed a note payable to the Foundation for $315. The note bears interest at 2.75 % per annum and payable on or before December 15, 2014, together with interest on the unpaid principal balance. The note payable balance at June 30, 2014 and 2013, was $315 and is included in long-term debt in the accompanying consolidated balance sheets (see *Note 6*).

In April 2014, the Foundation executed a note payable from SMMC for $297,000 to finance the buy-out of one of the SMMC's capital leases. The note is payable in monthly installments of $12,634, through March 1, 2016. The payments include interest at an annual rate of 2.18% to St. Mark's Medical Center Foundation. The note payable balance was $261 at June 30, 2014.

Note 12: Disclosure About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2014 and 2013 (in thousands):

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2014				
Money market funds	$ 18,673	$ 18,673	$ -	$ -
Equity securities	3,303	3,303	-	-
U.S. Treasury obligations	787	-	787	-
U.S. Government securities	749	749	-	-
Mutual funds	720	720	-	-
Corporate stocks and bonds	236	236	-	-
Bond funds	8,969	-	8,969	-
2013				
Money market funds	$ 18,105	$ 18,105	$ -	$ -
Equity securities	3,140	3,140	-	-
U.S. Treasury obligations	2,266	-	2,266	-
U.S. Government securities	1,235	1,235	-	-
Mutual funds	638	638	-	-
Corporate stocks and bonds	474	474	-	-
Bond Funds	5,012	-	5,012	-

Cash and cash equivalents, insurance annuities and a guaranteed investment contract are included in *Note 4* and are not subject to ASC Topic 820 fair value hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy.

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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The value of certain investments, classified as bond funds, are determined using net asset value as a practical expedient. Investments for which CHC expects to have the ability to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 2. Investments for which CHC does not expect to be able to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 3. The bond funds may be redeemed weekly therefore the funds are classified as Level 2 for the years ended June 30, 2014 and 2013.

Fair Value of Financial Instruments

The following table presents estimated fair values of CHC's financial instruments at June 30, 2014 and 2013, (in thousands):

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 43,438	$ 43,438	$ 39,058	$ 39,058
Investments and assets limited as to use	47,324	47,324	45,523	45,523
Financial liabilities				
Long-term debt	155,886	154,499	153,473	154,180

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value:

Cash and Cash Equivalents and Certificates of Deposit

The carrying amount approximates fair value.

Notes Payable and Long-term Debt

Fair value is estimated based on the borrowing rates currently available to CHC for bonds with similar terms and maturities.

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Note 13: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *2*.

Malpractice and General Liability Claims

Estimates related to the accrual for medical malpractice claims are described in *Notes 1* and *5*.

Litigation

In the normal course of business, CHC is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by CHC's self-insurance program (discussed elsewhere in these notes) or by commercial insurance (*e.g.*, allegations regarding employment practices or performance of contracts). CHC evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Employee Health Insurance and Workers' Compensation Insurance

Estimates related to the accrual for self-funded employee health insurance are discussed in *Notes 1* and *5*.

Regulatory Matter

BHSET encountered a series of regulatory findings in the 13 months beginning February 2013, some of which were deemed Immediate Jeopardy (IJ) citations by CMS. Accordingly, BHSET entered into a Systems Improvement Agreement (SIA) with CMS. Under the terms of the SIA, BHSET agreed to engage a team of independent consultants to analyze operations and provide written reports to CMS detailing their findings and recommendations. Under the agreement, BHSET will work with the independent consultants in both the development and implementation of a detailed plan of the specific actions BHSET must take to return to and sustain full compliance. Management of BHSET believes BHSET will return to full compliance in fiscal year 2015 and has not recorded any losses that may arise as a result of the findings.

VHA Southwest Community Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Investments

CHC invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

At June 30, 2014, one financial institution held approximately 44% of CHC's investments.

Asset Retirement Obligation

As discussed in *Note 14*, CHC has recorded a liability for its conditional asset retirement obligations related to asbestos.

Letter of Credit

On August 12, 2002, BHSET entered into an irrevocable letter of credit agreement (Letter of Credit) with a bank. The Texas Workers' Compensation Commission (Commission) is the beneficiary under the Letter of Credit. The Commission may draw funds from the Letter of Credit in the event BHSET becomes an impaired employer. Amounts available under the Letter of Credit were approximately $1,200 at June 30, 2014 and 2013, respectively. There were no amounts outstanding under the Letter of Credit at June 30, 2014 and 2013. The Letter of Credit expired on August 4, 2014, and was renewed for one year.

Note 14: Asset Retirement Obligation

Accounting principles generally accepted in the United States of America require that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard), even when the timing and/or method of settlement may be conditional on a future event. CHC's conditional AROs primarily relate to asbestos contained in certain buildings owned by BHSET that are occupied. Environmental regulations exist in Texas that require CHC to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished. The liability has been recorded in other long-term liabilities on the accompanying consolidated balance sheets.

VHA Southwest Community Health Corporation and Subsidiaries

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A summary of changes in AROs for the years ended June 30, 2014 and 2013, is included in the table below:

	2014	2013
Other long-term liability, beginning of year	$ 1,007	$ 1,013
Accretion expense and change in estimate	94	94
Obligations settled	(49)	(100)
Other long-term liability, end of year	$ 1,052	$ 1,007

Note 15: Patient Protection and Affordable Care Act

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Texas has currently indicated that it will not expand the Medicaid program, which may result in revenues from newly covered individuals not offsetting CHC's reduced revenue from other Medicare/Medicaid programs.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible it will have a negative impact on CHC's net patient service revenue. In addition, it is possible CHC will experience payment delays and other operational challenges during PPACA's implementation.

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Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Note 16: Subsequent Events

Subsequent to year end, the Artesia Special Hospital District (ASHD) notified CHC of its intention to terminate the AGH Hospital Operating Agreement at the end of the term. On November 1, 2014, ASHD and CHC entered into a Hospital Transition Agreement whereby CHC transferred its corporate membership in AGH to ASHD. ASHD and CHC also entered into a Transaction Service Agreement whereby CHC will provide ASHD, for up to 18 months, services to facilitate the transfer of the management of AGH to ASHD. At June 30, 2014, the net assets of AGH were $37,444.

On October 1, 2014, CHC acquired a long-term acute care hospital in Charlotte, North Carolina, for $5.2 million.

In December 2014, the board of BHSET determined that the closure of inpatient services of Baptist Orange Hospital would likely occur in fiscal 2015. The carrying amount of land, buildings and improvements at Baptist Orange Hospital as of June 30, 2014, was approximately $21,500. Management is currently evaluating the impact to the BHSET and CHC financial statements, including impairment of long-lived assets.

Subsequent events have been evaluated through December 19, 2014, which is the date the consolidated financial statements were available to be issued.

Consolidating Information

VHA Southwest Community Health Corporation and Subsidiaries

Balance Sheet Information – Consolidating Schedule

June 30, 2014 and 2013

Assets

	AGH	BHSET	CCC	CHA	CHC	CCHST
Current Assets						
Cash and cash equivalents	$ 18,377	$ 13,689	$ 61	$ 189	$ 1,413	$ -
Short-term investments	-	489	-	-	4,535	-
Assets limited as to use, current	-	1,572	-	-	-	-
Patient accounts receivable, net of allowance	5,604	28,226	56	-	-	2
Estimated amounts due from or to third-party payers	(289)	8,025	-	-	-	-
Supplies	847	6,087	-	-	-	-
Prepaid expenses and other	654	5,958	36	40	1,301	55
Excess insurance coverage receivable, current	-	451	-	-	-	-
Total current assets	25,193	64,497	153	229	7,249	57
Assets Limited As To Use						
Held by trustee, self-insurance	-	13,038	-	-	3,711	-
Held by trustee, under bond indenture agreements	-	19,460	-	-	-	-
Externally restricted by donors	-	153	-	-	-	-
	-	32,651	-	-	3,711	-
Less amount required to meet current obligations	-	1,572	-	-	-	-
	-	31,079	-	-	3,711	-
Other Investments	2,176	364	-	-	9,544	-
Property and Equipment, At Cost						
Land and land improvements	130	8,117	-	-	-	-
Buildings and leasehold improvements	4,559	228,903	-	-	60	-
Equipment	11,342	136,905	697	-	1,181	-
Construction in progress	2,365	-	-	-	-	-
	18,396	373,925	697	-	1,241	-
Less accumulated depreciation	5,357	238,961	91	-	944	-
	13,039	134,964	606	-	297	-
Due from Related Party	792	-	-	-	4,502	-
Other Assets						
Goodwill and other intangible assets	-	2,242	-	-	-	-
Deferred financing costs	-	3,006	-	-	-	-
Other assets	-	1,518	-	-	40	-
Excess insurance coverage receivable	-	3,990	-	-	-	-
	-	10,756	-	-	40	-
Total assets	$ 41,200	$ 241,660	$ 759	$ 229	$ 25,343	$ 57

VHA Southwest Community Health Corporation and Subsidiaries

Balance Sheet Information – Consolidating Schedule (Continued)

June 30, 2014 and 2013

Assets

	CCHT	Consulting	WHS	SCH	SMMC	YCH
Current Assets						
Cash and cash equivalents	$ 2,396	$ 1,188	$ -	$ -	$ 1,324	$ 2,483
Short-term investments	-	-	-	-	-	-
Assets limited as to use, current	-	-	-	-	-	-
Patient accounts receivable, net of allowance	4,711	-	-	-	3,554	1,682
Estimated amounts due from or to third-party payers	102	-	-	-	824	535
Supplies	192	-	-	-	751	385
Prepaid expenses and other	142	1,340	-	-	735	357
Excess insurance coverage receivable, current	-	-	-	-	-	-
Total current assets	7,543	2,528	-	-	7,188	5,442
Assets Limited As To Use						
Held by trustee, self-insurance	-	-	-	-	8	-
Held by trustee, under bond indenture agreements	-	-	-	-	2,729	-
Externally restricted by donors	-	-	-	-	-	-
	-	-	-	-	2,737	-
Less amount required to meet current obligations	-	-	-	-	-	-
	-	-	-	-	2,737	-
Other Investments	-	650	-	8,855	-	-
Property and Equipment, At Cost						
Land and land improvements	-	-	-	-	1,072	1
Buildings and leasehold improvements	143	-	-	-	22,012	461
Equipment	2,366	153	-	-	10,836	9,328
Construction in progress	-	-	-	-	234	5,330
	2,509	153	-	-	34,154	15,120
Less accumulated depreciation	1,766	100	-	-	7,078	7,226
	743	53	-	-	27,076	7,894
Due From Related Party	-	3,147	-	-	249	-
Other Assets						
Goodwill and other intangible assets	-	-	-	-	-	-
Deferred financing costs	-	-	-	-	347	-
Other assets	-	-	-	-	791	-
Excess insurance coverage receivable	-	-	-	-	-	-
	-	-	-	-	1,138	-
Total assets	$ 8,286	$ 6,378	$ -	$ 8,855	$ 38,388	$ 13,336

VHA Southwest Community Health Corporation and Subsidiaries

Balance Sheet Information – Consolidating Schedule (Continued)

June 30, 2014 and 2013

Assets

	CCBH	CCHM	CCCH	CCHH	Eliminations	Total
Current Assets						
Cash and cash equivalents	$ 1,177	$ 140	$ 265	$ 736	$ -	$ 43,438
Short-term investments	-	-	-	-	-	5,024
Assets limited as to use, current	-	-	-	-	-	1,572
Patient accounts receivable, net of allowance	5,957	1,210	2,448	2,098	-	55,548
Estimated amounts due from or to third-party payers	(2,515)	-	(330)	(29)	-	6,323
Supplies	30	68	127	-	-	8,487
Prepaid expenses and other	103	43	56	28	-	10,848
Excess insurance coverage receivable, current	-	-	-	-	-	451
Total current assets	4,752	1,461	2,566	2,833	-	131,691
Assets Limited As To Use						
Held by trustee, self-insurance	-	-	-	-	-	16,757
Held by trustee, under bond indenture agreements	-	-	-	-	-	22,189
Externally restricted by donors	-	-	-	-	-	153
	-	-			-	39,099
Less amount required to meet current obligations	-	-	-	-	-	1,572
	-	-	-	-	-	37,527
Other Investments	-	-	11	-	(18,399)	3,201
Property and Equipment, At Cost						
Land and land improvements	-	-	-	-	-	9,320
Buildings and leasehold improvements	-	-	-	-	-	256,138
Equipment	16	231	764	-	-	173,819
Construction in progress	-	309	-	-	-	8,238
	16	540	764	-	-	447,515
Less accumulated depreciation	2	44	542	-	-	262,111
	14	496	222	-	-	185,404
Due from Related Party	-	-	-	-	(8,690)	-
Other Assets						
Goodwill and other intangible assets	-	-	-	-	-	2,242
Deferred financing costs	-	-	-	-	-	3,353
Other assets	-	-	-	-	-	2,349
Excess insurance coverage receivable	-	-	-	-	-	3,990
	-	-	-	-	-	11,934
Total assets	$ 4,766	$ 1,957	$ 2,799	$ 2,833	$ (27,089)	$ 369,757

VHA Southwest Community Health Corporation and Subsidiaries

Balance Sheet Information – Consolidating Schedule (Continued)

June 30, 2014 and 2013

Liabilities and Net Assets

	AGH	BHSET	CCC	CHA	CHC	CCHST
Current Liabilities						
Current maturities of long-term debt	$ -	$ 6,440	$ 83	$ -	$ 468	$ -
Accounts payable	1,505	15,217	5	-	2,782	(1)
Accrued expenses	2,251	16,021	241	49	4,569	-
Amounts due under UPL programs	-	746	-	-	-	-
Estimated self-insurance costs, current	-	1,572	-	-	-	-
Total current liabilities	3,756	39,996	329	49	7,819	(1)
Estimated Self-insurance costs	-	13,897	-	-	242	-
Long-term Debt	-	130,455	205	-	559	-
Due to Related Party	-	424	4,767	-	-	44
Other Long-term Liabilities	-	1,053	-	-	-	-
Total liabilities	3,756	185,825	5,301	49	8,620	43
Net Assets						
CHC	37,434	54,860	(4,542)	180	16,723	14
Noncontrolling interest	-	826	-	-	-	-
Total unrestricted net assets	37,434	55,686	(4,542)	180	16,723	14
Temporarily restricted	10	149	-	-	-	-
Total net assets	37,444	55,835	(4,542)	180	16,723	14
Total liabilities and net assets	$ 41,200	$ 241,660	$ 759	$ 229	$ 25,343	$ 57

VHA Southwest Community Health Corporation and Subsidiaries

Balance Sheet Information – Consolidating Schedule (Continued)

June 30, 2014 and 2013

Liabilities and Net Assets

	CCHT	Consulting	WHS	SCH	SMMC	YCH
Current Liabilities						
Current maturities of long-term debt	$ 107	$ -	$ -	$ -	$ 3,386	$ 1,739
Accounts payable	293	94	-	-	1,675	542
Accrued expenses	1,385	1,920	-	-	2,322	983
Amounts due under UPL programs	-	-	-	-	715	-
Estimated self-insurance costs, current	-	-	-	-	-	-
Total current liabilities	1,785	2,014	-	-	8,098	3,264
Estimated Self-insurance costs	-	-	-	-	-	-
Long-term Debt	467	-	-	-	20,242	-
Due to Related Party	204	-	544	-	-	1,025
Other Long-term Liabilities	-	-	-	-	133	-
Total liabilities	2,456	2,014	544	-	28,473	4,289
Net Assets						
CHC	5,830	4,364	(544)	8,855	9,915	8,955
Noncontrolling interest	-	-	-	-	-	-
Total unrestricted net assets	5,830	4,364	(544)	8,855	9,915	8,955
Temporarily restricted	-	-	-	-	-	92
Total net assets	5,830	4,364	(544)	8,855	9,915	9,047
Total liabilities and net assets	$ 8,286	$ 6,378	$ -	$ 8,855	$ 38,388	$ 13,336

VHA Southwest Community Health Corporation and Subsidiaries

Balance Sheet Information – Consolidating Schedule (Continued)

June 30, 2014 and 2013

Liabilities and Net Assets

	CCBH	CCHM	CCCH	CCHH	Eliminations	Total
Current Liabilities						
Current maturities of long-term debt	$ -	$ 50	$ 47	$ -	$ -	$ 12,320
Accounts payable	1,319	803	1,065	1,604	-	26,903
Accrued expenses	1,871	697	311	177	-	32,797
Amounts due under UPL programs	-	-	-	-	-	1,461
Estimated self-insurance costs, current	-	-	-	-	-	1,572
Total current liabilities	3,190	1,550	1,423	1,781	-	75,053
Estimated Self-insurance costs	-	-	-	-	-	14,139
Long-term Debt	-	2,123	1,223	500	-	155,774
Due to Related Party	230	1,154	128	115	(8,690)	(55)
Other Long-term Liabilities	-	-	-	-	-	1,186
Total liabilities	3,420	4,827	2,774	2,396	(8,690)	246,097
Net Assets						
CHC	1,346	(2,870)	25	437	(18,399)	122,583
Noncontrolling interest	-	-	-	-	-	826
Total unrestricted net assets	1,346	(2,870)	25	437	(18,399)	123,409
Temporarily restricted	-	-	-	-	-	251
Total net assets	1,346	(2,870)	25	437	(18,399)	123,660
Total liabilities and net assets	$ 4,766	$ 1,957	$ 2,799	$ 2,833	$ (27,089)	$ 369,757

VHA Southwest Community Health Corporation and Subsidiaries

Statement of Operations and Changes in Net Assets Information – Consolidating Schedule

Year Ended June 30, 2014 and 2013

	AGH	BHSET	CCC	CHA	CHC	CCHST
Unrestricted Revenues, Gains and Other Support						
Patient service revenue (net of contractual allowances and discounts)	$ 50,283	$ 247,570	$ -	$ -	$ -	$ -
Provision for uncollectible accounts	6,518	23,989	-	-	-	-
Net patient service revenue less provision for uncollectible accounts	43,765	223,581	-	-	-	-
Ad valorem tax revenue	6,525	-	-	-	-	-
Other	1,093	11,412	-	300	6	-
Total unrestricted revenues, gains and other support	51,383	234,993	-	300	6	-
Expenses and Losses						
Salaries and wages	20,634	91,874	1,458	-	6,729	-
Employee benefits	3,408	17,936	197	-	1,381	-
Purchased services and professional fees	7,656	38,428	(65)	-	534	-
Supplies, rent and other costs	10,312	66,685	276	283	1,164	-
Corporate allocation	872	1,661	(847)	-	(3,845)	-
Depreciation and amortization	1,136	14,800	91	-	103	-
Interest	21	6,614	14	-	29	-
Gain on disposal of property and equipment	-	(30)	-	-	-	-
Total expenses and losses	44,039	237,968	1,124	283	6,095	-
Operating Income (Loss)	7,344	(2,975)	(1,124)	17	(6,089)	-
Other Income (Expense)						
Contributions received	-	154	-	-	-	-
Investment return	14	657	-	-	798	-
Loss on refinancing of debt	-	(4,903)	-	-	-	-
Other	-	-	-	-	4,689	-
Total other income (expense)	14	(4,092)	-	-	5,487	-

VHA Southwest Community Health Corporation and Subsidiaries

Statement of Operations and Changes in Net Assets Information – Consolidating Schedule (Continued)

Year Ended June 30, 2014 and 2013

	CCHT	Consulting	WHS	SCH	SMMC	YCH
Unrestricted Revenues, Gains and Other Support						
Patient service revenue (net of contractual allowances and discounts)	$ 27,092	$ -	$ -	$ -	$ 29,106	$ 19,112
Provision for uncollectible accounts	(178)	-	-	-	4,325	1,730
Net patient service revenue less provision for uncollectible accounts	27,270	-	-	-	24,781	17,382
Ad valorem tax revenue	-	-	-	-	-	-
Other	6	4,701	-	-	2,998	227
Total unrestricted revenues, gains and other support	27,276	4,701	-	-	27,779	17,609
Expenses and Losses						
Salaries and wages	9,336	2,637	-	-	10,062	7,171
Employee benefits	1,969	375	-	-	2,058	1,901
Purchased services and professional fees	6,918	157	-	-	3,378	3,216
Supplies, rent and other costs	5,132	1,322	-	-	7,354	3,691
Corporate allocation	609	-	-	-	370	422
Depreciation and amortization	187	39	-	-	2,169	634
Interest	7	-	-	-	945	88
Gain on disposal of property and equipment	-	-	-	-	-	-
Total expenses and losses	24,158	4,530	-	-	26,336	17,123
Operating Income (Loss)	3,118	171	-	-	1,443	486
Other Income (Expense)						
Contributions received	-	-	-	-	-	2,000
Investment return	-	-	-	-	11	10
Loss on refinancing of debt	-	-	-	-	-	-
Other	-	855		-	-	-
Total other income (expense)	-	855	-	-	11	2,010

VHA Southwest Community Health Corporation and Subsidiaries

Statement of Operations and Changes in Net Assets Information – Consolidating Schedule (Continued)

Year Ended June 30, 2014 and 2013

	CCBH	CCHM	CCCH	CCHH	Eliminations	Total
Unrestricted Revenues, Gains and Other Support						
Patient service revenue (net of contractual allowances and discounts)	$ 9,092	$ 2,300	$ 1,980	$ 3,360	$ -	$ 389,895
Provision for uncollectible accounts	116	23	28	34	-	36,585
Net patient service revenue less provision for uncollectible accounts	8,976	2,277	1,952	3,326	-	353,310
Ad valorem tax revenue	-	-	-	-	-	6,525
Other	1	14	-	-	(300)	20,458
Total unrestricted revenues, gains and other support	8,977	2,291	1,952	3,326	(300)	380,293
Expenses and Losses						
Salaries and wages	2,959	2,300	784	1,100	-	157,044
Employee benefits	702	476	173	227	(2,168)	28,635
Purchased services and professional fees	1,483	699	592	779	(300)	63,475
Supplies, rent and other costs	2,257	1,372	616	651	(143)	100,971
Corporate allocation	227	222	100	119	-	(90)
Depreciation and amortization	3	44	31	-	-	19,237
Interest	-	48	12	13	(86)	7,705
Gain on disposal of property and equipment	-	-	-	-	-	(30)
Total expenses and losses	7,631	5,161	2,308	2,889	(2,697)	376,947
Operating Income (Loss)	1,346	(2,870)	(356)	437	2,397	3,346
Other Income (Expense)						
Contributions received	-	-	381	-	-	2,535
Investment return	-	-	-	-	(86)	1,404
Loss on refinancing of debt	-	-	-	-	-	(4,903)
Other	-	-	-	-	(2,311)	3,233
Total other income (expense)	-	-	381	-	(2,397)	2,269

VHA Southwest Community Health Corporation and Subsidiaries

Statement of Operations and Changes in Net Assets Information – Consolidating Schedule (Continued)

Year Ended June 30, 2014 and 2013

	AGH	BHSET	CCC	CHA	CHC	CCHST
Excess (Deficiency) of Revenues Over Expenses	$ 7,358	$ (7,067)	$ (1,124)	$ 17	$ (602)	$ -
Contributions and grants for acquisition of property and equipment	-	280	-	-	-	-
Investment return, change in unrealized gains and losses on other than trading securities	-	(47)	-	-	-	-
Net assets released from restriction	-	-	-	-	-	-
Distributions to members	-	-	-	-	706	-
Transfers from (to) affiliates	-	-	-	-	-	-
Distributions to noncontrolling interest	-	(215)	-	-	-	-
Change in ownership interest in joint venture	-	209	-	-	-	-
Increase (Decrease) in Unrestricted Net Assets	7,358	(6,840)	(1,124)	17	104	-
Temporarily Restricted Net Assets						
Contributions received	-	8	-	-	-	-
Net assets released from restriction	-	(27)	-	-	-	-
Increase in temporarily restricted net assets	-	(19)	-	-	-	-
Change in Net Assets	7,358	(6,859)	(1,124)	17	104	-
Net Assets, Beginning of Year	30,086	62,694	(3,418)	163	16,619	14
Net Assets, End of Year	$ 37,444	$ 55,835	$ (4,542)	$ 180	$ 16,723	$ 14

VHA Southwest Community Health Corporation and Subsidiaries

Statement of Operations and Changes in Net Assets Information – Consolidating Schedule (Continued)

Year Ended June 30, 2014 and 2013

	CCHT	Consulting	WHS	SCH	SMMC	YCH
Excess (Deficiency) of Revenues Over Expenses	$ 3,118	$ 1,026	$ -	$ -	$ 1,454	$ 2,496
Contributions and grants for acquisition of property and equipment	-	-	-	-	-	-
Investment return, change in unrealized gains and losses on other than trading securities	-	-	-	-	-	-
Net assets released from restriction	-	-	-	-	-	-
Distributions to members	(3,528)	-	-	-	-	-
Transfer from (to) affiliates	-	-	-	-	-	-
Distributions to noncontrolling interest	-	-	-	-	-	-
Change in ownership interest in joint venture	-	-	-	-	-	-
Increase (Decrease) in Unrestricted Net Assets	(410)	1,026	-	-	1,454	2,496
Temporarily Restricted Net Assets						
Contributions received	-	-	-	-	-	2
Net assets released from restriction	-	-	-	-	-	-
Increase in temporarily restricted net assets	-	-	-	-	-	2
Change in Net Assets	(410)	1,026	-	-	1,454	2,498
Net Assets, Beginning of Year	6,240	3,338	(544)	8,855	8,461	6,548
Net Assets, End of Year	$ 5,830	$ 4,364	$ (544)	$ 8,855	$ 9,915	$ 9,046

VHA Southwest Community Health Corporation and Subsidiaries

Statement of Operations and Changes in Net Assets Information – Consolidating Schedule (Continued)

Year Ended June 30, 2014 and 2013

	CCBH	CCHM	CCCH	CCHH	Eliminations	Total
Excess (Deficiency) of Revenues Over Expenses	$ 1,346	$ (2,870)	$ 25	$ 437	$ -	$ 5,615
Contributions and grants for acquisition of property and equipment	-	-	-	-	-	280
Investment return, change in unrealized gains and losses on other than trading securities	-	-	-	-	-	(47)
Net assets released from restriction	-	-	-	-	-	-
Distributions to members	-	-	-	-	-	(2,822)
Transfers from (to) affiliates	-	-	-	-	-	-
Distributions to noncontrolling interest	-	-	-	-	-	(215)
Change in ownership interest in joint venture	-	-	-	-	-	209
Increase (Decrease) in Unrestricted Net Assets	1,346	(2,870)	25	437	-	3,020
Temporarily Restricted Net Assets						
Contributions received	-				-	10
Net assets released from restriction	-				-	(27)
Increase in temporarily restricted net assets	-				-	(17)
Change in Net Assets	1,346	(2,870)	25	437	-	3,003
Net Assets, Beginning of Year	-	-		-	(18,399)	120,657
Net Assets, End of Year	$ 1,346	$ (2,870)	$ 25	$ 437	$ (18,399)	$ 123,660